INTERNATIONAL ENERGY AGENCY/AGENCE INTERNATIONALE DE L'ENERGIE

OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

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INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

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HIGHLIGHTS

- NYMEX WTI averaged $59.45/bbl in December and pushed above $64/bbl in early January on strong gasoline prices, Nigerian outages and uncertainty about Iran's nuclear program.

- Refinery margins rebounded from early December lows, helped by gasoline strength as Atlantic Basin refineries headed into seasonal maintenance. This, together with high spot prices and forward premia for crude and product prices suggests continued demand for higher inventory cover and a need to replenish stocks in the second quarter.

- World oil demand is revised down by 90 kb/d for 2005 to 83.30 mb/d. Low temperatures in key consuming areas supported December product demand. Global demand increased by some 1.3% in 2005 and should grow by 2.2% in 2006 as demand rebounds in the US and China.

- Global oil supply reached 85.0 mb/d in December, up by 0.6 mb/d from November. Non-OPEC supply for 2005 is revised down by 90 kb/d on weak OECD output to 50.1 mb/d, unchanged from 2004. Non-OPEC growth accelerates to 1.3 mb/d in 2006. OPEC 2006 gas liquids/non-conventional supply also rises by 350 kb/d, after 420 kb/d growth in 2005.

- OPEC crude supply declined 280 kb/d in December to 29.3 mb/d. Iraqi supply fell to 1.55 mb/d from November's 1.7 mb/d. Nigerian production was also disrupted in December and January. OPEC spare capacity remains tight but installed capacity will rise by 1.0 mb/d in 2006. The call on OPEC for 2006 is revised up by 0.1 mb/d to 28.6 mb/d, an increase of 0.2 mb/d versus 2005.

- OECD total industry oil stocks fell by 11 mb in November, closing at 2678 mb, 47 mb above the previous year. The draw was centred in the Pacific, where both crude and product inventories declined, but was partly offset by rising US distillate stocks. Forward demand cover came to 52 days in November, one day lower than last month and on a par with 2004.

Next Issue: 10 February 2006

CONTENTS

HIGHLIGHTS 1

MYTHS AND LEGENDS 3

DEMAND 4
- Summary 4
- OECD 5
  - Overview of OECD Demand Trends 5
  - Pacific 6
  - Europe 6
  - North America 8
- Non-OECD 9
  - China 9
  - Other Non-OECD 10

SUPPLY 12
- Summary 12
- OPEC 13
- OECD 15
  - North America 15
- Non-OPEC Supply Treads Water in 2005, But Rebounding in 2006? 16
  - North Sea 18
- Former Soviet Union (FSU) 19
- Other Non-OPEC 21
  - Revisions to Other Non-OPEC Estimates 21

OECD STOCKS 22
- Summary 22
- OECD Industry Stock Changes in November 2005 23
  - OECD North America 23
  - OECD Europe 23
  - OECD Pacific 24
- OECD Inventory Position at End-November and Revisions to Preliminary Data 24
- Recent Developments in ARA Independent Storage 25
- Recent Developments in Singapore Stocks 25

PRICES 27
- Summary 27
- Oil Futures Prices in December 28
  - Crude Futures 29
  - Product Futures 29
- Crude Oil Prices in December 30
  - Benchmark Crudes 30
  - Europe and West Africa 30
  - The Americas 31
  - Middle East and Asia 32
  - Delivered Crude Prices in December 32
- Product Prices in December 32
  - Spot Product Prices 32
  - The Americas 33
  - Europe 34
  - Singapore 35
  - End-User Product Prices in October 35
- Freight 37

REFINERY ACTIVITY 38
- Summary 38
- Refining Margins 39
- Refinery Throughput 42
- Impact of the EU Emissions Trading Scheme on European Refineries 44

TABLES 46

OIL MARKET REPORT CONTACTS

MYTHS AND LEGENDS

With the beginning of every New Year it is time to roll out the old oil market mantra about *the looming weak second quarter*. But is it reasonable to be quite so bearish about second-quarter prospects?

True, a sharp fall in product demand is nearly always seen in the second quarter, predominantly in the Asia Pacific. But at the same time, refineries in Europe and the US ramp up throughput to offset product stock depletions caused by early-year maintenance and winter product demand – therefore increasing crude demand. Also, Asian refiners start buying to ensure supplies are adequate when maintenance ends. This leads to a clear divergence between product and crude demand: while the former may fall, the latter may increase.

As a result of this higher demand for crude, it is hardly surprising that the trend towards higher stocks during the second quarter is predominantly in products, rather than crude. Revealingly, the rise in product inventories is also distributed evenly across the OECD and not solely concentrated in the Asia Pacific region where the product demand dip is most prominent. In North America and Europe the stock builds reflect a seasonal need to replenish inventory ahead of peak summer demand. Inventories also need to rise to meet potential spikes in demand and to provide a buffer against uncertainty. But, as 2005 has shown, rising stocks do not necessarily mean falling prices - if the desire to hold higher inventories is there. The summer premium for gasoline prices and winter premium for heating oil provide that desire.

The market can draw some solace from the modest increase in effective OPEC spare capacity over the past year, but at less than 1.5 mb/d it currently remains below comfort levels. Also, while spare capacity is expected to build this year, there is some statistical uncertainty. Even with the latest revisions to official OECD stock data, the miscellaneous balancing item (which represents unreported/unmeasured components of supply, demand and stocks) remains high (0.9 mb/d in Q3) and has been on a rising trend since 2004. This could have contrasting impacts on the Call on OPEC.

(million barrels per day)	1Q2004	2Q2004	3Q2004	4Q2004	1Q2005	2Q2005	3Q2005	4Q2005	1Q2006	2Q2006	3Q2006	4Q2006
Miscellaneous to balance	0.7	0.8	0.7	0.1	0.1	1.2	0.9					
8Q Average Misc-to-Bal	0.0	0.1	0.2	0.3	0.4	0.5	0.7	0.7	0.7	0.7	0.7	0.7
Call on OPEC + Stock ch.	27.9	26.4	27.6	29.2	29.1	26.8	28.3	29.5	29.1	27.2	28.4	29.7
Adjusted Call	27.9	26.6	27.9	29.6	29.5	27.3	29.0	30.2	29.8	27.8	29.1	30.4

A positively trending balancing item can represent unreported stock builds, pipeline fill, overstated supply or under-reported demand. It also has implications for the final world oil balance. For example, the peak fourth quarter 2006 Call on OPEC + stock change is forecast at 29.7 mb/d – not much above current OPEC output. But should the miscellaneous balancing item ultimately be revealed as representing under-reported demand or over-reported supply, then the Call would be understated. Adding the average of the miscellaneous to balance over eight quarters to the current numbers would lift the Call to 30.4 mb/d in Q4 2006. That would also leave OPEC spare capacity close to current levels and the average Call for the year at 29.3 mb/d (pretty close to average 2005 OPEC output).

Of course, if the miscellaneous figure is accounted for by unreported stock building, then such an adjustment would be a significant overstatement of the Call. When more accurate annual data is available, 2006's Call on OPEC will probably lie somewhere between the calculated and the adjusted Call. While OPEC has the potential to match the Call at the higher level, the lower level clearly implies a larger cushion against uncertainty.

Further, data published in last month's Report and the Reference Scenario of World Energy Outlook 2005 show that spare capacity is not expected to expand dramatically through to 2010. Recent events in the Middle East and West Africa have underscored uncertainties on the supply side and are likely to reinforce the recent trend towards a higher level of inventory demand.

In oil market legend, the weak second quarter hangs like the Sword of Damocles. But in reality, the sword is only myth. The oil market is a complex entity. Seasonality, differences between crude and product demand, statistical and geopolitical uncertainties are but some of the issues that need to be taken into account. All have the potential to offset increases in upstream spare capacity and maintain the recent trend towards higher inventory demand – a fact underscored by current high spot and forward prices.

DEMAND

Summary

- **Global oil product demand** grew by only 0.6% year-on-year in the fourth quarter of 2005, in part due to temporary factors including hurricane related market disruptions and an abnormally warm early winter. In December, temperatures were colder in key consuming areas, which helped spur demand. Demand is expected to grow by 1.6% year-on-year in the first quarter of 2006, and by 2.2% for 2006 as a whole. Key factors underpinning this projection are a rebound in Chinese demand growth and more robust US demand growth versus a hurricane affected 2005 baseline.

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	84.4	83.3	85.4	83.5	84.7	86.9	85.1
Annual Change (%)	3.0	5.3	3.8	3.2	3.8	2.2	1.3	1.2	0.6	1.3	1.6	1.9	2.3	3.0	2.2
Annual Change (mb/d)	2.4	4.1	3.0	2.6	3.0	1.8	1.1	1.0	0.5	1.1	1.3	1.6	1.9	2.5	1.8
Changes from last month's report (mb/d)	-	-	-	0.0	0.0	-	-	0.0	-0.4	-0.1	0.0	0.0	0.0	-0.2	0.0

- **OECD demand** was weak in the fourth quarter of 2005, but it appears to be on a path to recovery. In October, hurricane related disruptions and mild temperatures contributed to a 3.2% year-on-year decline in OECD demand. Preliminary indications are that OECD demand was flat in November versus the previous year, but then grew by some 1.7% in December as temperatures fell. US demand grew by an estimated 1.7% in December, to an all-time monthly high of 21.9 mb/d.

Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2005	2004	2005	2006	2004	2005	2006
North America	25.47	0.81	0.13	0.48	3.3	0.5	1.9
Europe	16.33	0.22	0.00	0.01	1.3	0.0	0.1
OECD Pacific	8.63	-0.16	0.10	0.10	-1.9	1.2	1.1
China	6.62	0.86	0.19	0.39	15.4	2.9	5.9
Other Asia	8.76	0.50	0.21	0.22	6.2	2.4	2.5
Subtotal Asia	24.01	1.20	0.50	0.71	5.4	2.1	3.0
FSU	3.70	0.16	-0.05	0.12	4.4	-1.3	3.2
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	4.98	0.19	0.12	0.11	4.1	2.5	2.3
World	83.30	3.00	1.09	1.83	3.8	1.3	2.2

- **Global demand growth** is revised down from 1.18 mb/d to 1.09 mb/d for 2005. Fourth quarter demand was reduced by 360 kb/d, largely due to revisions to FSU and US demand. FSU exports were much higher than expected in November and December, reducing apparent demand. US demand for LPG/ethane and naphtha was lower than anticipated as high natural gas prices induced producers to leave natural gas liquids (NGLs) in the natural gas stream. As well, the consumption of petrochemical producers was disrupted by hurricane related outages.

- **Chinese apparent demand** grew by only 1.3% in November, with the year-on-year comparison largely subdued by a spike in fuel oil demand in November 2004. This moderation in growth

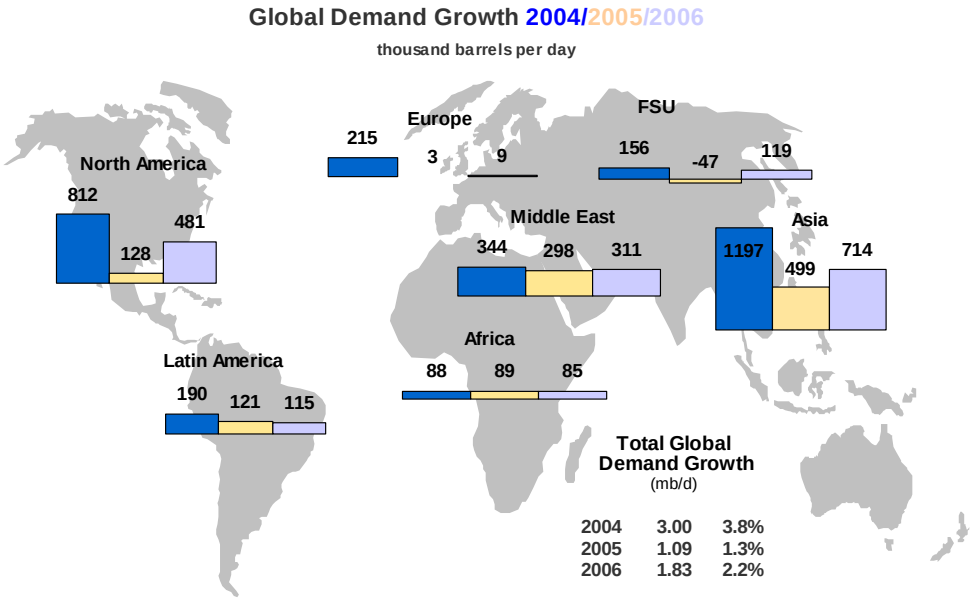
Preliminary Inland Deliveries - November 2005[1]

	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]	9.18	1.3	1.56	-8.7	3.16	6.7	0.90	-18.3	0.95	10.7	4.8	-6.7	20.53	-1.3
Canada	0.70	-0.6	0.13	0.0	0.47	1.1	0.09	-6.4	0.16	-9.4	0.2	-8.6	1.78	-2.4
Mexico	0.70	6.4	0.05	-14.3	0.34	6.9	0.00	na	0.31	-20.4	0.4	-3.8	1.79	-2.1
Japan	1.04	3.3	0.60	20.0	0.65	-1.7	0.47	0.4	0.44	1.6	1.6	1.3	4.81	3.2
Korea	0.17	3.8	0.06	136.0	0.41	1.5	0.12	0.8	0.25	-14.0	1.2	3.1	2.16	1.9
France	0.23	-5.7	0.13	3.9	0.64	2.1	0.33	6.5	0.06	10.1	0.4	-4.6	1.81	0.5
Germany	0.53	-8.4	0.17	2.6	0.64	-3.5	0.62	2.0	0.11	-9.1	0.5	1.3	2.55	-2.3
Italy	0.30	-6.3	0.07	0.7	0.52	-0.4	0.15	8.5	0.16	-4.2	0.4	0.1	1.63	-1.0
Total	**12.84**	**0.9**	**2.75**	**-0.5**	**6.83**	**3.2**	**2.68**	**-5.6**	**2.44**	**-2.0**	**9.5**	**-3.4**	**37.05**	**-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 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

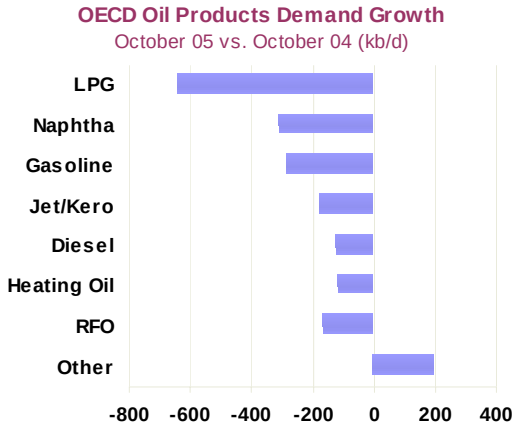
followed a robust recovery in September (8.0%) and October (5.3%). Early indications suggest that December fuel oil imports will exceed November levels, and with unusually cold temperatures in December, year-on-year apparent demand growth should rebound.

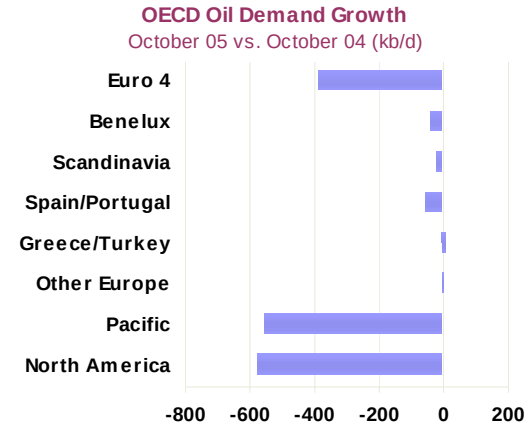
- **Japanese and Korean** demand was unusually weak in October, declining by 6.7% and 9.9% year-on-year due to relatively high end-user prices and mild weather. More recently, temperatures fell below normal and indications are that December demand was very strong versus year-ago levels. Japanese December demand is projected to have grown by some 6.6% and Korean demand should increase by approximately 3.8%.



OECD

Overview of OECD Demand Trends





Total OECD Demand by Product
(million barrels per day)

	2004	2005	4Q04	1Q05	2Q05	3Q05	Aug 05	Sep 05	Oct 05	Latest month vs. Sep 05	Latest month vs. Oct 04
LPG & Ethane	4.87	4.69	5.05	5.40	4.33	4.36	4.48	4.29	4.21	-0.08	-0.64
Naphtha	3.22	3.26	3.33	3.40	3.15	3.25	3.33	3.15	2.96	-0.19	-0.30
Motor Gasoline	14.88	14.90	14.89	14.46	15.09	15.17	15.58	14.57	14.51	-0.06	-0.28
Jet & Kerosene	4.11	4.22	4.24	4.62	3.91	4.00	4.01	4.02	3.95	-0.07	-0.17
Gas/Diesel Oil	12.85	13.05	13.40	13.38	12.64	12.72	12.85	13.16	12.83	-0.33	-0.23
Residual Fuel Oil	4.59	4.58	4.67	4.88	4.36	4.44	4.49	4.49	4.43	-0.07	-0.16
Other Products	4.98	5.01	4.89	4.42	5.23	5.37	5.45	5.33	5.11	-0.21	0.20
Total Products	**49.49**	**49.71**	**50.48**	**50.57**	**48.70**	**49.31**	**50.20**	**49.02**	**48.00**	**-1.02**	**-1.58**

Pacific

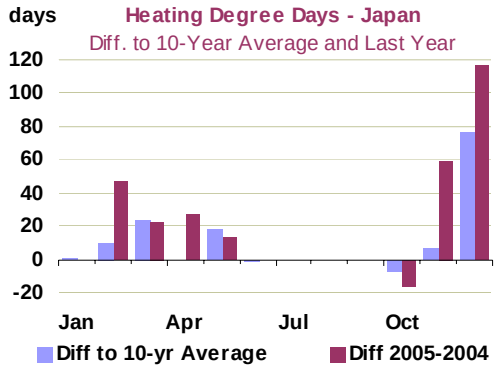
The weather has prompted wide swings in OECD Pacific petroleum product demand growth in recent months. Unseasonably warm October temperatures contributed to a year-on-year decline in product demand of 6.7% in Japan and 9.9% in Korea. But November was colder than the previous year, lifting deliveries of jet fuel/kerosene by 20.0% and 12.6% respectively and helping to raise overall growth to 3.7% in Japan and 0.9% in Korea. Also, there were reports that a dry autumn period resulted in a near 40% year-on-year drop in hydropower output in Japan. Thermal power generation capacity was increased as an offset, almost doubling the consumption of oil by Japan's power generators from last November's levels.

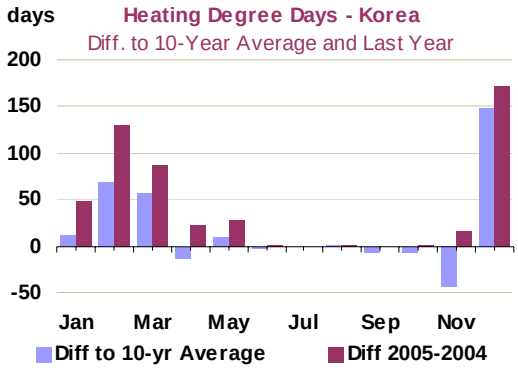
More recently, temperatures fell well below normal seasonal averages, with reports that this was the coldest December in Japan in the last 20 years. As a consequence, Japanese demand is expected to have grown by some 6.6% in December, with jet fuel/kerosene demand up by some 26.0% versus year-ago levels. Korean demand grew by a projected 3.8%, and although Korea may be more dependent on natural gas for residential/commercial heating than Japan, it is anticipated that jet fuel/kerosene demand increased by some 17.0% year-on-year.

OECD Pacific Demand by Product
(million barrels per day)

	2004	2005	4Q04	1Q05	2Q05	3Q05	Aug 05	Sep 05	Oct 05	Latest month vs. Sep 05	Latest month vs. Oct 04
LPG & Ethane	0.88	0.90	0.88	1.00	0.87	0.83	0.78	0.87	0.81	-0.07	-0.03
Naphtha	1.57	1.62	1.63	1.69	1.54	1.62	1.62	1.67	1.49	-0.18	-0.07
Motor Gasoline	1.60	1.61	1.63	1.59	1.59	1.65	1.75	1.59	1.51	-0.08	-0.07
Jet & Kerosene	1.02	1.06	1.12	1.54	0.77	0.72	0.71	0.75	0.78	0.03	-0.16
Gas/Diesel Oil	1.89	1.88	1.95	1.99	1.85	1.76	1.77	1.79	1.74	-0.05	-0.13
Residual Fuel Oil	1.05	1.04	1.05	1.17	0.98	0.98	1.00	0.98	0.98	0.00	-0.06
Other Products	0.52	0.52	0.52	0.52	0.50	0.54	0.51	0.57	0.46	-0.11	-0.03
Total Products	**8.53**	**8.63**	**8.77**	**9.49**	**8.10**	**8.10**	**8.13**	**8.21**	**7.77**	**-0.45**	**-0.55**

Among other developments, Japan plans to lower import tariffs on petroleum products over a six-year period beginning this April. The aim is to gradually allow more competition in the domestic market, where refiners have reported record high profits. This could contribute to marginally lower product prices, which may in turn have some positive impact on demand. Korea extended tariff cuts on crude and product prices to the end of 2006 in an effort to help mitigate the impact of relatively high oil prices on the economy. In April 2005, Korea reduced import tariffs on crude and products by 2%, to 1% and 5% respectively.





Europe

Petroleum product demand fell by some 2.9% year-on-year in October in OECD Europe. Abnormally warm weather and relatively high product prices took a bite out of demand. While European gasoline demand is generally in decline due to tax policies favouring diesel use, the price increases associated with Hurricanes Katrina and Rita in the US appear to have contributed to unusually large declines of 6.5% and 6.7% in September and October respectively. In November the year-on-year contraction in gasoline demand is estimated to have returned to a more 'normal' 3.7%. Note that in September and October 2006, European gasoline demand is projected to decline by less than 1.0% as the 2005 baseline is abnormally low in this period. On the whole, regional gasoline demand is projected to decline by 2.5% in 2006, less than the 4.3% decline witnessed in 2005.

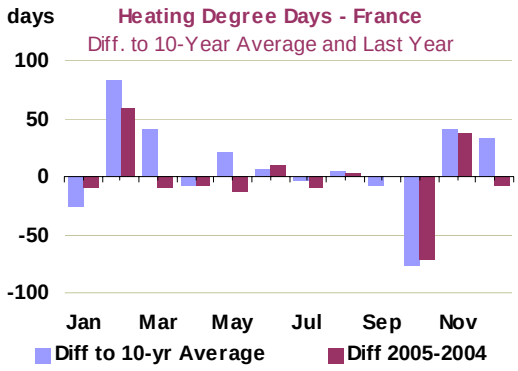
Preliminary indications for November are that fuel oil deliveries remained strong in France. A drought is reported to have necessitated greater fuel oil use in power generation to replace reduced hydro-electric output. In Germany, gasoline deliveries declined by a provisional 8.4% year-on-year in November, the largest decline of any month in 2005. Early indications are that deliveries of heating oil were down by about 18% year-on-year in Germany in December, in spite of the fact that temperatures were roughly in line with those of the previous year. This implies that there was a larger than normal drawdown in consumer inventories. It should be noted that this decline must be viewed in the context of a high December 2004 baseline, where deliveries increased by 16.5% as prices hit a five-month low. Such wide swings in German heating oil deliveries have become commonplace, as consumers continue to limit inventories in a high price environment, refilling tanks on a 'hand to mouth' basis.

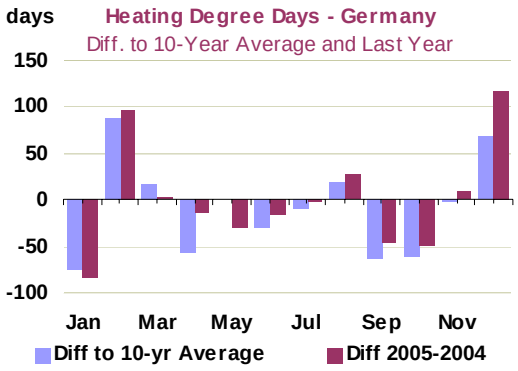
OECD Europe Demand by Product

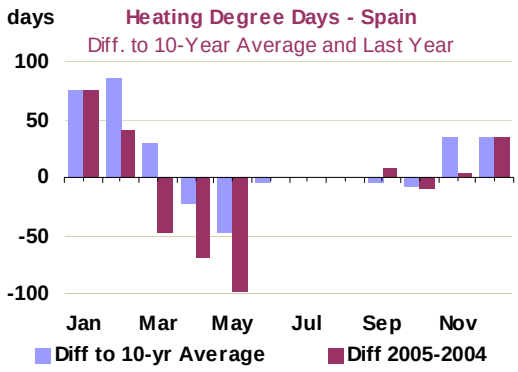
(million barrels per day)

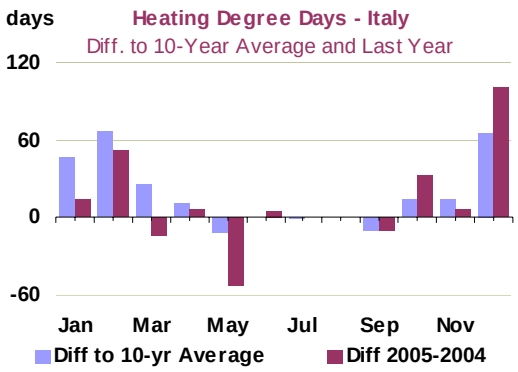
	2004	2005	4Q04	1Q05	2Q05	3Q05	Aug 05	Sep 05	Oct 05	Latest month vs. Sep 05	Latest month vs. Oct 04
LPG & Ethane	1.03	1.00	1.05	1.13	0.91	0.93	0.92	1.00	0.93	-0.08	-0.08
Naphtha	1.15	1.17	1.15	1.21	1.15	1.14	1.16	1.17	1.22	0.05	0.11
Motor Gasoline	2.78	2.66	2.72	2.52	2.76	2.75	2.82	2.66	2.55	-0.11	-0.18
Jet & Kerosene	1.18	1.24	1.17	1.15	1.24	1.35	1.38	1.38	1.25	-0.13	0.00
Gas/Diesel Oil	5.98	6.10	6.37	6.17	5.79	6.05	6.15	6.31	6.05	-0.26	-0.07
Residual Fuel Oil	2.02	1.96	2.08	2.12	1.90	1.84	1.80	1.86	1.85	0.00	-0.23
Other Products	1.48	1.49	1.48	1.26	1.55	1.64	1.57	1.71	1.51	-0.20	-0.01
Total Products	**15.62**	**15.61**	**16.02**	**15.56**	**15.30**	**15.71**	**15.80**	**16.10**	**15.37**	**-0.73**	**-0.46**

There was a widely reported outbreak of avian influenza in Turkey, as the disease continues to spread to areas outside of Asia. At this point the human impact has been relatively minor, but the situation must obviously be monitored closely. The SARS outbreak in Asia in the first half of 2003 had a substantial impact on oil product consumption, especially jet fuel.









North America

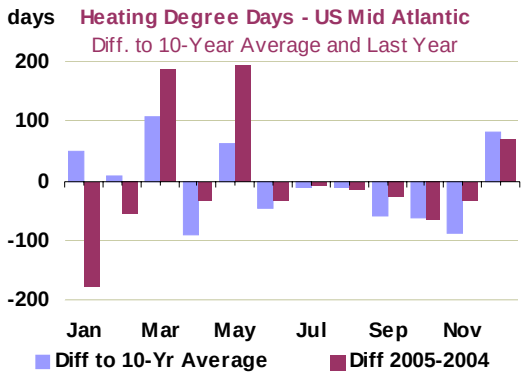
With the release of more complete US monthly data for October, the immediate demand-side impact of Hurricanes Katrina and Rita is more readily apparent. Gasoline demand declined by some 0.7% year-on-year, which is substantial, but certainly less than the 1.5%-2.0% decline initially suggested by the preliminary weekly delivery numbers. Diesel demand was also down by 3.7% and on the whole, total product demand declined by some 3.0%.

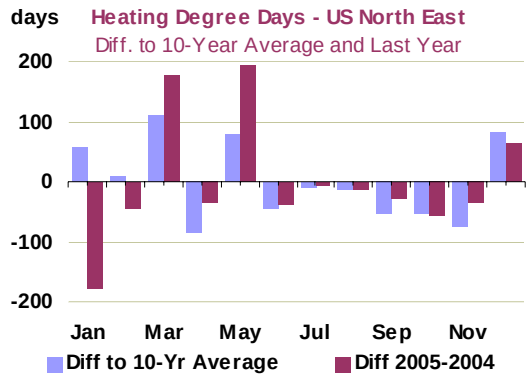
OECD North America Demand by Product
(million barrels per day)

	2004	2005	4Q04	1Q05	2Q05	3Q05	Aug 05	Sep 05	Oct 05	Latest month vs. Sep 05	Latest month vs. Oct 04
LPG & Ethane	2.95	2.79	3.12	3.27	2.54	2.59	2.78	2.42	2.47	0.06	-0.52
Naphtha	0.50	0.47	0.56	0.50	0.47	0.49	0.55	0.31	0.25	-0.06	-0.35
Motor Gasoline	10.50	10.63	10.55	10.35	10.74	10.77	11.01	10.32	10.45	0.13	-0.03
Jet & Kerosene	1.91	1.92	1.96	1.94	1.89	1.93	1.93	1.89	1.91	0.03	-0.01
Gas/Diesel Oil	4.98	5.07	5.08	5.22	5.00	4.91	4.93	5.06	5.04	-0.03	-0.03
Residual Fuel Oil	1.51	1.59	1.54	1.60	1.47	1.62	1.69	1.66	1.60	-0.06	0.13
Other Products	2.98	3.00	2.89	2.65	3.18	3.19	3.37	3.04	3.14	0.10	0.24
Total Products	**25.34**	**25.47**	**25.69**	**25.53**	**25.30**	**25.50**	**26.27**	**24.70**	**24.86**	**0.16**	**-0.57**

While transport fuels were certainly affected, perhaps the most striking impact of the supply outages in the Gulf of Mexico was linked to the dramatic surge in natural gas prices. LPG/ethane demand fell by some 22.9% year-on-year in October, in part because high natural gas prices encouraged producers to leave natural gas liquids in the gas stream. Reports also indicate that demand from the petrochemical sector was weak due to Gulf Coast outages (some 91% of US ethylene production is located in the Gulf Coast). The decline was much larger than initially projected based on preliminary data, necessitating a 420 kb/d downward revision to LPG/ethane demand in October. Note that ethane is reported under 'other oils' in the preliminary weekly data, making it difficult to disentangle movements of the relative components. The release of monthly data indicates that ethane demand declined by some 40.9% year-on-year in October. This was offset to a certain extent by a sharp rise in the consumption of fuel oil. Demand for fuel oil increased by some 14.2% in October as a substantial rise in natural gas prices encouraged interfuel substitution.

LPG/ethane demand is projected to stay relatively weak throughout the winter months as the natural gas market is expected to remain tight, thus encouraging producers to leave NGLs in the gas stream. Of course, this decline in demand is not indicative of weakness in the market, but merely a higher value alternative use. It should be mentioned that natural gas prices have recently declined following milder weather in early January. Though prices have fallen below distillate on a $/mmBtu basis, they still remain well above LSFO. As such, the demand for fuel oil is expected to remain strong.





Preliminary inland delivery data suggest that US demand declined by some 1.3% year-on-year in November, but that gasoline demand rebounded to grow by some 1.3%. Part of the increase in gasoline deliveries may be attributed to refilling of secondary inventories following hurricane related logistical disruptions. But data suggest that gasoline demand growth also exceeded 1.0% in December, so a demand recovery appears to be on a solid footing. Provisional data also indicate that fuel oil deliveries grew by some 10.7% in November and an astounding 23.3% in December. Temperatures were well below normal in the first part of December and natural gas prices remained

relatively high, maintaining incentives for fuel substitution. Overall, petroleum product demand grew by some 1.7% in December, to an all-time high of 21.9 mb/d.

Moving into 2006, product prices may remain firm with the introduction of more stringent specifications. However, a continued strong economic performance is expected to underpin oil demand growth. As evidence of a robust economy, US jobless claims recently hit a five-year low.

Higher prices are however having an impact on consumption patterns. It appears that US consumers are shifting towards smaller vehicles, including crossover SUVs. The latter have car-based frames and are more efficient than truck-based SUVs. However, it will take some time for this change in preferences to have a substantial impact on the overall vehicle fleet.

In contrast to the US, Mexican demand was largely unaffected by the hurricane-related spike in international prices. This follows as domestic retail prices are fixed and not indexed to international prices. Gasoline demand grew by an average of 6.6% year-on-year in September and October, and demand is expected to expand by 6.2% in November. Overall, petroleum product demand growth is expected to increase by some 3.4% in 2006.

Non-OECD

China

After posting a recovery in September (8.0%) and October (5.3%), preliminary indications are that Chinese apparent demand grew by only 1.3% in November. This weakness was largely driven by a 32.6% year-on-year decline in fuel oil demand. With the exception of jet fuel (-1.8%), the demand for other products increased by 6-10%.

The sharp drop-off in fuel oil demand was not entirely unexpected because the November 2004 baseline was extraordinarily high, with demand increasing by 40.8% year-on-year. Early indications are that the apparent demand for fuel oil recovered in December with a large month-on-month increase in imports. The month of December was also extraordinarily cold, and while China relies predominantly on coal to satisfy its heating requirements, demand for oil products will receive a boost at the margin. As a consequence, we continue to project relatively robust apparent demand growth of 6.9% for December. Note that there have been reports that the fuel oil market may be oversupplied on heavy December arrivals, setting the stage for a drop-off in apparent demand in January.

China Crude & Product Trade
(thousand barrels per day)

	2003	2004	4Q2004	1Q2005	2Q2005	3Q2005	Sep 05	Oct 05	Nov 05	Latest month vs. Oct 05	Latest month vs. Nov 04
Net Imports/(Exports) of:											
Crude Oil	1664	2346	2491	2305	2541	2294	2517	2575	2290	-285	-409
Products & Feedstocks	442	661	653	501	375	445	608	608	589	-19	-230
Gasoil/Diesel	-28	43	79	-6	-27	-40	-24	-4	8	12	-72
Gasoline	-175	-125	-117	-151	-161	-155	-74	-43	-57	-14	56
Heavy Fuel Oil	407	506	515	480	395	397	416	380	371	-8	-287
LPG	202	201	184	200	179	216	243	179	196	17	-9
Naphtha	-22	-33	-51	-49	-67	-25	-2	0	-20	-20	52
Jet & Kerosene	1	16	8	6	5	2	-2	41	29	-11	15
Other	58	52	34	22	51	49	51	56	62	6	14
Total	2106	3008	3144	2807	2916	2739	3125	3183	2879	-304	-639

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

In general, it appears that the demand for gasoil remains very strong while the demand for all other products, including gasoline, is comparatively weak. Refiners are also downblending kerosene in an effort to satisfy demand for diesel.

The government allowed the suspension of tax rebates for gasoline and naphtha exports to expire at the beginning of 2006, which is expected to help reduce the growing inventories of gasoline. It is reported that China will nearly double its gasoline exports in January versus December, to approximately 110 kb/d.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2004	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
LPG & Ethane	633	641	666	7	25	1.2	3.9
Naphtha	684	738	809	54	71	8.0	9.6
Motor Gasoline	1069	1100	1188	31	88	2.9	8.0
Jet & Kerosene	239	248	268	9	20	3.6	8.1
Gas/Diesel Oil	2150	2275	2438	125	163	5.8	7.2
Residual Fuel Oil	829	758	738	-72	-20	-8.6	-2.6
Other Products	828	862	907	33	45	4.0	5.3
Total Products	**6433**	**6621**	**7014**	**188**	**393**	**2.9**	**5.9**

The Chinese government has recently announced and/or clarified a number of policy positions, many of which could have an impact on apparent oil demand, as summarised briefly below:

- China cut 2006 oil product export quotas by 25%. It is said that the export quotas are intended as guidelines rather than strict rules. However, the government will closely monitor product exports to avoid a repeat of the shortages that emerged last summer, when refiners boosted exports as international market prices exceeded administered domestic prices. Note that the quotas do not cover export-processing arrangements.
- As mentioned above, the government recently reinstated tax rebates of 11% of the 17% value-added tax charged on gasoline exports and 13% of the 17% value-added tax charged on naphtha exports. The rebates had been suspended from 1 September to 31 December. A 6% tariff on imported diesel which had been waived was also reinstated, as was a 9% tariff on jet fuel.
- China plans to end price controls on coal used for power generation in 2006, allowing power companies to negotiate their own prices. The government also plans to raise the price of natural gas and eventually move toward a more market-oriented pricing system to encourage the development of the natural gas market.
- The Chinese government will pay Sinopec $1.2 billion to compensate it for refinery losses suffered due to lags in raising administered product relative to jumps in international crude and product prices. It is interesting that the government chose to provide a lump-sum payment as opposed to a subsidy that is tied directly to refinery production. A lump-sum subsidy does not provide a marginal incentive to increase supplies to the domestic market, but it would help fund future overseas acquisitions.
- The government plans to restrict investment in a number of industrial sectors that it maintains are in danger of overcapacity. Investment in ethylene units with capacity under 600,000 tonnes per year and crude distillation units with capacity under 8 million tonnes per year will be restricted.

China has also revised its historical estimates of GDP and economic growth, as a national census found the service sector to be larger than previously measured. This change obviously lowers the energy intensity of the Chinese economy, although it still remains relatively high. Economists point out that the revisions show that the economy may be better balanced than many had previously thought, with stronger domestic consumption and a smaller share for investment and exports. This increases the likelihood of sustained economic expansion.

Revisions to China's GDP Growth

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
New GDP Growth (%)	14.0	13.1	10.9	10.0	9.3	7.8	7.6	8.4	8.3	9.1	10.0	10.1
Previous GDP Growth (%)	13.5	12.6	10.5	9.6	8.8	7.8	7.1	8.0	7.5	8.3	9.5	9.5
Oil Demand Growth (%)	11.5	2.3	9.3	10.3	9.0	3.3	5.2	6.2	2.6	7.5	11.0	15.4

Other Non-OECD

India's oil product demand grew by a preliminary 1.4% in November. Diesel consumption grew by an estimated 10.0% year-on-year, but naphtha demand continued its decline as natural gas is being substituted for relatively high-priced naphtha by industrial users. Like much of Asia, India is in the midst of an unusually cold winter, which should boost consumption of petroleum products in northern areas.

Brazilian demand declined by a preliminary 1.4% in October versus last year, in large part because gasoline consumption remained relatively weak. Gasoline demand grew by an estimated 1.1% in 2005, well below the 5.3% witnessed in 2004. Ethanol consumption has taken off, and while projections of this year's sugar cane harvest have recently been revised slightly downwards, it will certainly be a record year for ethanol production.

India Crude & Product Trade
(thousand barrels per day)

	2003	2004	4Q2004	1Q2005	2Q2005	3Q2005	Aug 05	Sep 05	Oct 05*	Latest month vs. Sep 05	Oct 04
Net Imports/(Exports) of:											
Crude Oil	1863	1945	1742	1969	1894	1965	2009	2070	1846	-224	-57
(by Public Oil Cos)	1243	1158	1000	1133	1116	1112	1091	1273	1275	3	69
Products & Feedstocks	-152	-176	-222	-82	-92	-116	-184	-134	-197	-63	-6
Gasoil/Diesel	-119	-139	-162	-89	-108	-135	-140	-193	-223	-30	-67
Gasoline	-72	-75	-80	-53	-39	-35	-47	-19	-4	15	81
Heavy Fuel Oil	5	-6	-20	-4	10	7	27	-7	-33	-26	-26
LPG	55	86	128	95	74	98	96	125	138	13	18
Naphtha	-1	-7	-25	-15	-39	-28	-74	2	-9	-11	4
Jet & Kerosene	-22	-47	-74	-34	-5	-33	-56	-53	-74	-21	-11
Other	1	12	12	17	15	10	10	11	8	-3	-4
Total	1712	1769	1520	1887	1801	1849	1825	1936	1649	-287	-62

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

It appears that **FSU** exports of crude and petroleum products were unexpectedly strong in November and December, contributing to a 180 kb/d downward revision to fourth quarter apparent demand (production less net exports). Gasoil exports reportedly increased by almost 200 kb/d in December.

Taiwan's petroleum product demand grew by some 9.3% year-on-year in October as increased manufacturing activity associated with a strong holiday season is reported to have boosted demand. Among other Asian consumers, it appears that **Indonesian** demand remains weak following a substantial increase in administered prices in October. There have been reports that the government may reduce administered prices with a decline in international market prices. Indonesian state oil company Pertamina recently reduced the price of high octane gasoline and prices to industrial users of petroleum products, both of which are not subsidised by the government. The **Vietnamese** government has lifted oil product import quotas by approximately 3%, signalling that it expects relatively modest demand growth in spite of the fact that the economy is projected to expand by some 8%. Increases in administered retail prices and increased use of natural gas have helped to limit demand growth to a certain extent.

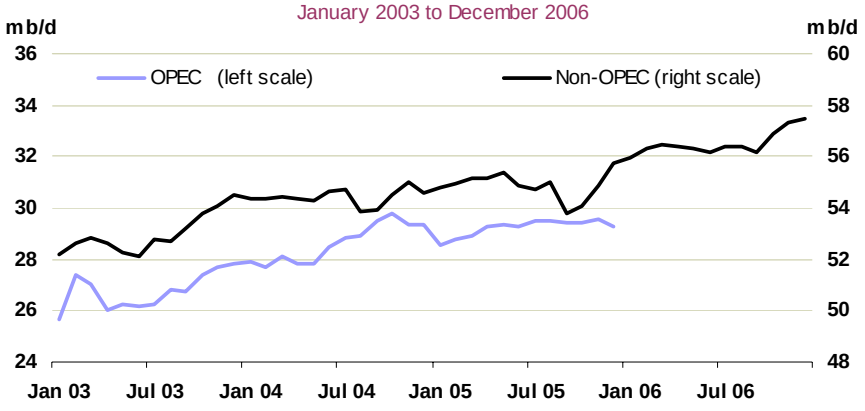
SUPPLY

Summary

- **World oil supply** gained 0.6 mb/d in December versus November and averaged 85.0 mb/d. Increases were centred on the US Gulf, offshore Canada, Mexico, Norway, and non-OECD Asia. OPEC crude supply fell by 280 kb/d, offset in part by higher Venezuelan non-conventional oil supply.
- A **year-on-year comparison** shows global oil supply in fourth quarter 2005 running only 100 kb/d above 2004. Growth has slowed sharply from the 3 mb/d average for the two years up to 2Q 2005. Shortfalls from the OECD and a slow-down in OPEC supply growth underpin this deceleration. OECD supply was 1.2 mb/d below year ago levels during second half 2005. In contrast, growth from other non-OPEC suppliers has accelerated in recent months, after weakening earlier in 2005.
- The effects of 2005's exceptional hurricane season on the **US Gulf of Mexico (GOM)** underpin recent poor OECD performance**.** December production recovered by 240 kb/d versus November, slower than forecast in last month's Report. As of 11 January, 395 kb/d of Federal offshore GOM production (26% of total) remained shut-in. Total production loss for the GOM, Louisiana and NGL is now estimated at 725 kb/d in December, 570 kb/d in January, 400 kb/d in February, falling to 200-250 kb/d for the March to June period.
- **Non-OPEC supply** for 2005 is revised down by 90 kb/d versus last month, primarily on weak OECD production. Non-OPEC volumes now average 50.1 mb/d, unchanged from 2004. Supply in 2006 is forecast at 51.4 mb/d, down 180 kb/d from last month, with revisions to the OECD and non-OECD Asia and Latin America. In addition to 1.3 mb/d of 2006 non-OPEC growth, OPEC gas liquids and non-conventional oil supply should rise by 350 kb/d, after a 420 kb/d rise in 2005.
- **OPEC crude supply** averaged 29.3 mb/d in December, 280 kb/d below November. Iraqi supply is assessed at 1.55 mb/d versus 1.7 mb/d in November. Exports and local refinery runs were curbed by weather and pipeline sabotage respectively. Saudi supply eased to 9.5 mb/d. Venezuelan conventional crude output fell back by 90 kb/d in December, but non-conventional, upgraded supply (in the OPEC NGL category) rose after November maintenance. Largely unchanged Nigerian supply saw rising deepwater output counter sabotage-affected Bonny Light supply.
- **OPEC spare production capacity** reached 2.6 mb/d in December in nominal terms, but is nearer 1.35 mb/d if Indonesia, Iraq, Nigeria and Venezuela are excluded. Net of prevailing field decline, OPEC sustainable capacity is expected to rise by 1.0 mb/d over the course of 2006.
- **The 'call on OPEC crude and stock change'** for fourth quarter 2005 averaged 29.5 mb/d, 100 kb/d above assessed OPEC supply in the period. The call for 2006 has been revised up by 0.1 mb/d to 28.6 mb/d, representing an increase of 0.2 mb/d versus 2005. The call peaks at 29.7 mb/d in fourth quarter but, despite downward revisions to non-OPEC supply for first half 2006, slips to 27.2 mb/d in the second quarter. While this illustrates the seasonal dip in product demand, OECD refinery crude demand tends to remain stronger in the second quarter.

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 December discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska, Egypt, Oman and Russia are supported by preliminary December 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 29.3 mb/d in December, 280 kb/d below November. November supply was itself revised down by 60 kb/d after indications emerged of lower Iranian exports and of lower production from the UAE. Iraqi December supply is assessed at 1.55 mb/d versus 1.7 mb/d in November. Exports and local refinery runs were curbed due to weather and pipeline sabotage respectively. Saudi supply eased in December by 50 kb/d to 9.5 mb/d. Venezuelan conventional crude output, which had been boosted in November by heavy crude upgrader outages, fell back again by 90 kb/d in December, with a counteracting rise in non-conventional syncrude supply (included in the OPEC NGL category). Nigerian supply was largely unchanged last month, as rising deepwater output from the newly started Bonga field countered the impact of pipeline sabotage. The latter shut-in production and caused Shell to declare force majeure on Bonny Light export liftings.

Nigerian production capacity was revised up to 2.6 mb/d in line with the gradual build up in supplies from the deepwater Bonga field. Nonetheless, December's production decline did little to expand effective OPEC spare capacity. Indonesia, Iraq, Nigeria and Venezuela accounted for 260 kb/d of the 280 kb/d decline in December production. Since these four producers are generally excluded from *effective* production capacity, the latter measure remained below 1.5 mb/d. However, there is the prospect for OPEC capacity additions in the next few months to genuinely add to supply side flexibility. Notable in this respect are the Haradh project in Saudi Arabia and further expansions planned for Algeria, Libya, Nigeria and UAE, all due to boost supplies during the first three to four months of 2006. In all, OPEC capacity is expected to rise by 1.0 mb/d by end-2006, reaching 32.8 mb/d.

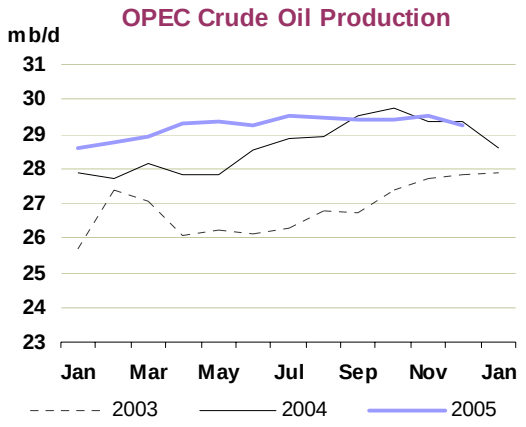
OPEC Crude Production
(million barrels per day)

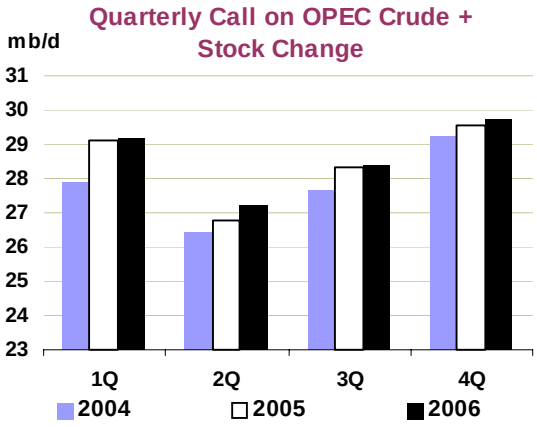
	1 July 2005 Target	December 2005 Production	Sustainable Production Capacity[1]	Spare Capacity vs December 2005 Production	Production vs. Target
Algeria	0.89	1.37	1.37	0.00	0.48
Indonesia	1.45	0.94	0.98	0.05	-0.52
Iran	4.11	3.85	4.00	0.15	-0.26
Kuwait[2]	2.25	2.51	2.60	0.09	0.27
Libya	1.50	1.65	1.65	0.00	0.15
Nigeria	2.31	2.46	2.60	0.14	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	2.56	2.65	0.10	0.11
Venezuela[3]	3.22	2.05	2.20	0.15	-1.17
Subtotal	**28.00**	**27.71**	**29.38**	**1.67**	**-0.29**
Iraq		1.55	2.50	0.95	
Total		**29.26**	**31.88**	**2.62**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.33)*	

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 574 kb/d in December

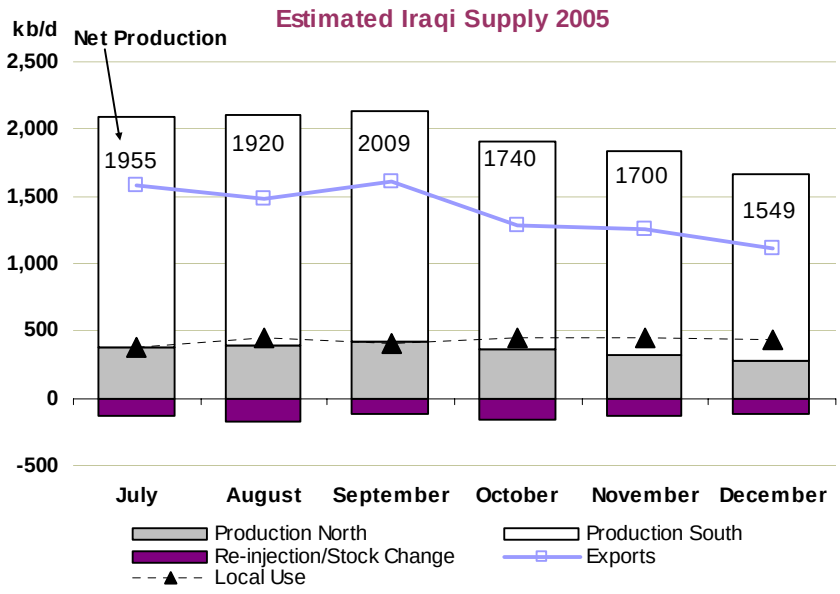
OPEC's 12 December meeting in Kuwait resulted in a decision to hold target production levels unchanged at 28.0 mb/d for the first quarter. However, a further extraordinary meeting has been called for 31 January to consider production levels for the second and third quarters. The producer group will then meet again in an ordinary session on 8 March. The 12 December meeting also flagged OPEC's welcome intention to publish information regarding member countries' upstream and downstream capacity expansion plans. Indeed, the Organisation's website now contains projections of likely crude capacity through 2010 which show an expected rise to 38 mb/d. This is higher than this Report's estimate of 36-36.5 mb/d by 2010, although definitional differences for current capacity

and assumed future decline rates potentially account for some of the discrepancy. The website lists future expansion projects, although not all with specific details of capacity and completion dates.
The 31 January OPEC meeting is widely expected to focus on the need, or otherwise, for a production cut ahead of the seasonal weakening in product demand in the second quarter. As noted elsewhere in this Report, OECD crude demand tends to remain rather more robust in 2Q than does product demand. Notwithstanding, reports emerged in late December and early January that some producers, including Iran and Venezuela, saw the need for cuts of up to 1.0 mb/d. However, stronger prices in the last 7-10 days, prompted in part by renewed geopolitical concerns and by production shortfalls from Iraq, Nigeria, the US Gulf and North Sea have led to counter-arguments in favour of holding production unchanged for a while longer. Comments from Algeria, Indonesia and Nigeria have suggested no need to cut production while prices remain strong. Although a clear indication of a consensus OPEC price target remains elusive, less hawkish members have suggested that a floor of $40-$45/bbl for the OPEC basket (now around $57/bbl) would be acceptable to them. These producers may oppose a supply cut unless prices risk falling below such levels.





Net Iraqi supply fell for the third straight month in December, as did crude exports. Supply averaged 1.55 mb/d, down from 1.7 m/d in November, and comprised 1.1 mb/d of exports (versus a scheduled 1.5 mb/d) and 440 kb/d of internal demand. Southern production and exports were adversely affected during the final third of December by weather related delays to tanker loadings and tug boat problems. With only limited crude storage capacity in the south (some 4 mb), bottlenecks in exports from Basrah and Khor al-Amaya led to a brief production shut-in. Term export contracts covering southern Basrah Light for the first half of 2006 amount to an average 1.6 mb/d, a level not seen during 2005.



Northern production remained constrained in December by a shuttered Kirkuk to Ceyhan export pipeline. This only operated for one day before being hit by a sabotage attack again in the fourth week of December. As in November, there was insufficient crude in storage at Ceyhan (some 1 mb) to allow any export liftings to occur. Northern production was further constrained by a security-related closure of the Baiji refinery for much of the second half of the month.

Nigerian supply for December is estimated down by 10 kb/d from November at 2.46 mb/d. On the one hand, the 225 kb/d deepwater Bonga field entered service on 28 November, contributing an estimated increment of 50 kb/d to Nigerian supply. However, this was likely countered by a net drop of some 60 kb/d in December production from the Bonny Light stream. A dynamite attack on two pipelines on 20 December forced the shut-in of the Bonny flow station and some 180 kb/d of production. Operator Shell announced on 22 December force majeure on exports which was only lifted on 6 January. However, production was re-instated fairly rapidly and only 15 kb/d remained shuttered on 26 December, although these volumes remain offline at the time of writing.

Further problems emerged in January however, possibly signalling more concerted disruption affecting the Niger Delta and shallow offshore producing areas, briefly pushing offline production up to 240 kb/d. On 11 January militants attacked a service vessel and abducted four service personnel connected to Shell's shallow water, 120 kb/d EA field, causing Shell to shut-down the field. On the same day there were reports of an explosion at an onshore pipeline, forcing Shell to shut-in 105 kb/d of crude destined for the Forcados export terminal. EA production re-started on 13 January, although a further 3-4 days were reportedly required to realise Forcados pipeline repairs. As this Report went to press, tensions in the Niger Delta appeared to be rising.

Provisional tanker tracking data for both aggregate Arab Gulf and Saudi spot vessels suggest a modest dip in supply from **Saudi Arabia** in December. This is assessed down by 50 kb/d from November at 9.5 mb/d, in line also with pronouncements from Oil Ministry and financial sources within the Kingdom. Meanwhile, although term crude export allocations for February remain at full volumes, a rise in prices for Arab Heavy crude suggests a potential further modest trimming of marginal barrels offered over and above contract volumes. Some 300 kb/d of gross incremental supply is due onstream by early in second quarter at the Haradh field, which has current capacity of 600 kb/d of Arab Light.

Aramco's work programme for 2006, approved in December, allows for a 61% increase in development wells compared to 2005. Meanwhile, Saudi Arabia's budget for 2006 appears to be based on assumed prices of between $30-$35/bbl.

OECD

North America

US – December Alaska actual, others estimated: December production from the Gulf of Mexico (GOM) increased by 240 kb/d versus November, slower than expected by last month's Report. As of 11 January, 395 kb/d of Federal offshore GOM production (or 26% of pre-hurricane GOM supply) remained shut-in. In addition, Louisiana authorities reported on 10 January that 80 kb/d (39%) of onshore and shallow offshore oil production remained shut-in. While both these levels suggest slower recovery than anticipated in last month's Report, implied NGL outages appear to be broadly in line with expectations. Returning GOM oil production during the past month has included:

- 90 kb/d from the Ursa platform, taking Mars Blend production back to 40% of its 350 kb/d total;
- 40-50 kb/d from the 60 kb/d capacity Devil's Tower facility;
- the 35 kb/d Medusa field, reactivated after repairs to downstream infrastructure.

Production loss for the GOM, Louisiana and NGL is now estimated at 725 kb/d for December, 570 kb/d for January and 400 kb/d in February, falling to 200-250 kb/d for the March to June period.

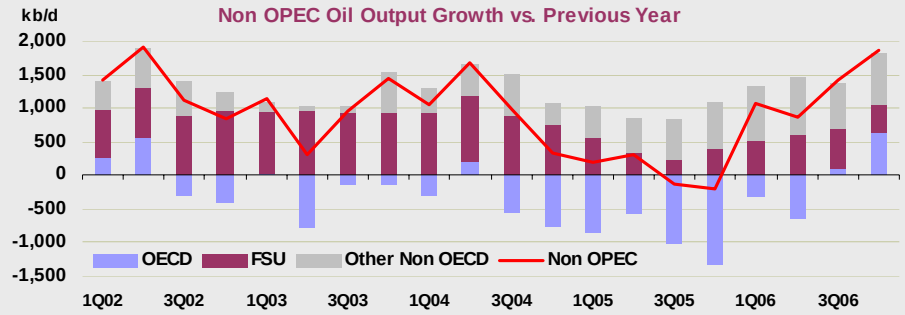
The modest seasonal recovery in Alaskan crude production seen in October and November stalled in December. Output of 840 kb/d was some 35 kb/d below November levels, as maintenance work by BP curbed Prudhoe Bay production. An Alaskan Department of Revenue forecast envisages state production will decline by 2.5 % in 2006 after a drop of over 5% in 2005. This is in line with existing projections from this Report.

Non-OPEC Supply Treads Water in 2005, But Rebounding in 2006?

The past two years have seen non-OPEC supply lag initial expectations and the pace of global demand growth. Although it will be many months before 'final' 2005 supply data is available, provisional numbers for November and December production exist for some countries. For others, indications of end-year field start-ups and loading schedules allow a tentative overview of 2005.

The extent of the slowdown in non-OPEC growth since its recent peak in 2Q 2004, when growth attained +1.7 mb/d on an annualised basis, is clear. Although non-OECD growth has also slowed, the key has been sharply declining OECD oil production. Original forecasts for 2004 and 2005 have, if anything tended to underestimate, actual non-OECD supply. However, OECD production has come in well below forecast in both years. Superficially, there is a temptation to extrapolate the trend in slowing supply and to attribute the decline in production solely to accelerating decline rates. But the inevitability of a continued deceleration from non-OPEC, *to the extent seen since mid-2004,* is by no means assured. The role of extreme weather, technical problems, start-up delays and political/fiscal factors in driving the recent slow-down should not be over-looked.

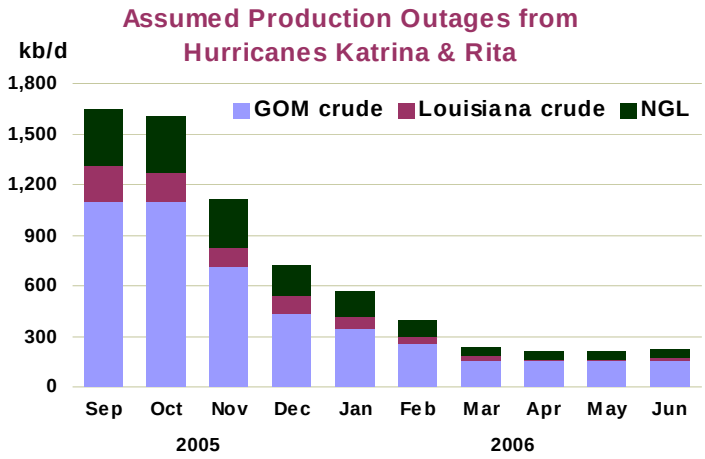
The extent and coincidence of these factors in 2005 may have been exceptional. With a healthy slate of new field starts in 2006, plus full-year output for late-2005 project streams, non-OPEC growth should recover. Unscheduled outages can cut non-OPEC supply by up to 400 kb/d on an annual basis. Non-OPEC 'under-shoot' in 2005 was even higher, at 1.0 mb/d. However, before writing off non-OPEC growth prospects, bear in mind that Hurricanes Katrina and Rita curbed 2005 US supply by some 500 kb/d. Nor should the impact of political factors on 2004/2005 FSU supply growth be discounted, resulting in over 300 kb/d of 'lost production'. Weather and politics can always undermine the best-laid production plans, but could (at the risk of tempting fate) have a lesser impact in 2006. Russian supply growth is accelerating again, while a modest US Gulf of Mexico rebound is likely. Brazil, Angola, other west Africa, the Caspian, southeast Asia, Canadian oilsands and offshore and NGL from Norway and OPEC should all see healthy 2006 growth.



Recent upstream spending surveys also suggest an ongoing response to rising prices. An autumn study from Institut Français du Petrole (IFP) suggested global upstream spending growth of 44% for 2002-2006, with signs of accelerated spending in 2005. Analysts at CSFB envisage a 20% rise in 2006 spending on drilling and well completion. Twice yearly surveys from Lehman Brothers and Citigroup progressively upgraded estimates for 2005 spending. Initial suggestions of 6% growth for 2005 were upgraded to some 14% at mid year, with actual levels now seen closer to 20%. Some 14-15% growth is seen for 2006, with recognition that high oil prices will likely see upstream outlays rise by 20%-plus by year-end. Deepwater projects are taking an increasing share of the growing upstream pie. Analysts at Infield Systems see spending on projects at water depths of 500 metres-plus having risen from $5 billion in 2000 to $12 billion in 2005 and potentially $14 billion in both 2006 and 2007.

Of course there is a lag between investment and bringing barrels to market. Also, cost inflation for steel, drilling rates and oilfield services may be running at up to 15%, and there are continued signs of host governments boosting fiscal take. Rising costs will swallow much of the spending increases, but companies surveyed suggest productivity improvements and contract extensions will allow incremental dollars to translate into extra barrels too.

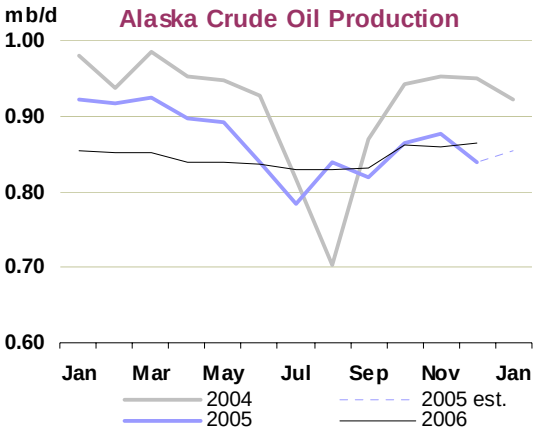
Finally, budget price assumptions are rising. Independents are now employing $50/bbl-plus, while NOCs and some IOCs use $30-$35/bbl rather than an earlier $25/bbl. But major IOCs are still testing projects at a conservative $25/bbl. Nonetheless, a gradual lowering of hurdle rates should see more of upstream companies' record profits being used to replace reserves. None of this is to suggest that non-OPEC supply will be immune from surprises. However, with OPEC also boosting upstream investment, there may at least be some extra supply flexibility to deal with future demand or supply-side shocks.

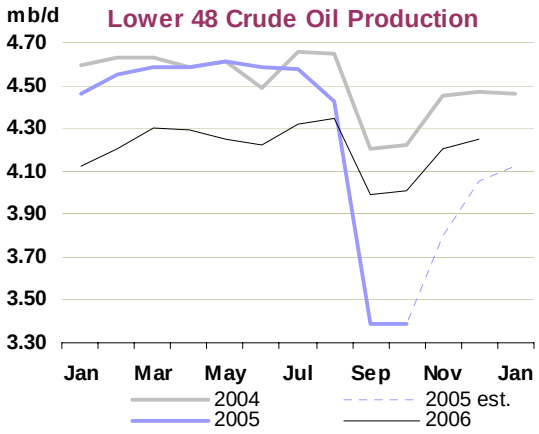


Forecast onshore lower-48 production remains largely unchanged from last month's Report, in which upward revisions reflected some modest response to high prices. Furthermore, implied total US production for the period through November is unchanged from the last Report. However, a levelling off in recovery from hurricane-affected facilities in December leads to downward adjustments of:

- 30 kb/d for 4Q 2005 US supply;
- 140 kb/d for 1Q 2006;
- 75 kb/d for 2Q 2006 and;
- 25 kb/d for the second half of the year.

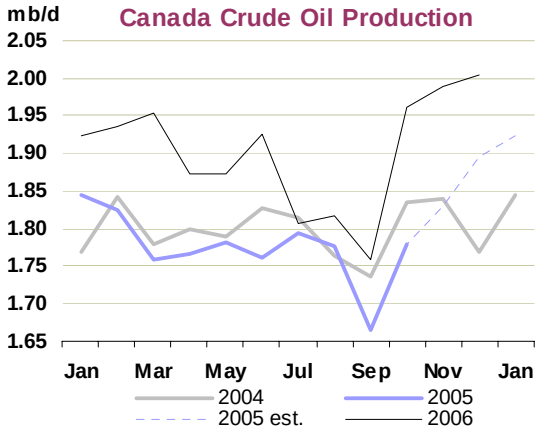
Total US supply averages 7.3 mb/d in 2006 (5.1 mb/d of which is crude oil), flat versus a 2005 level which is itself some 385 kb/d below 2004.

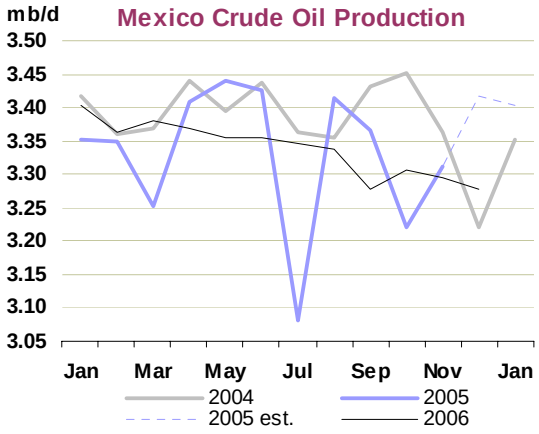




Canada –Newfoundland November actual, others October actual: Total Canadian oil production reached 3.15 mb/d in October, its highest level since February 2004. Supply comprised 1.78 mb/d of conventional crude, 720 kb/d of NGL and 645 kb/d of synthetic crude. Near-capacity oilsands production and recovery from the disruption-prone Terra Nova field offshore Newfoundland contributed to October's rise. Production is estimated up further in November and December, largely on the basis of increasing offshore Newfoundland production. Underpinning this rise was new supply of light, sweet crude from the White Rose field, which entered service in November and had reached output in excess of 70 kb/d in December. Canadian oil supply is seen rising from 3.0 mb/d in 2005 to 3.2 mb/d in 2006, driven higher by stronger performance from the three main syncrude plants, incremental bitumen output and a full year of production from White Rose.

Mexico – November actual: Production in November continued to lag earlier expectations from this Report. Recovery in crude output after storm-affected September and October levels occurred, but total output rose to only 3.7 mb/d compared to the 3.8-3.9 mb/d seen over the summer. Crude exports in November were stable at 1.9 mb/d. Compared to October there was a switch towards exports of



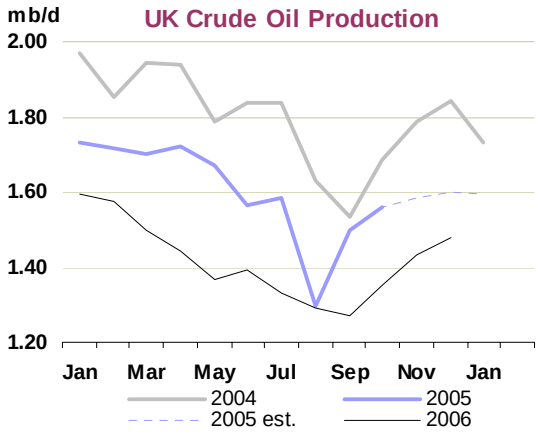


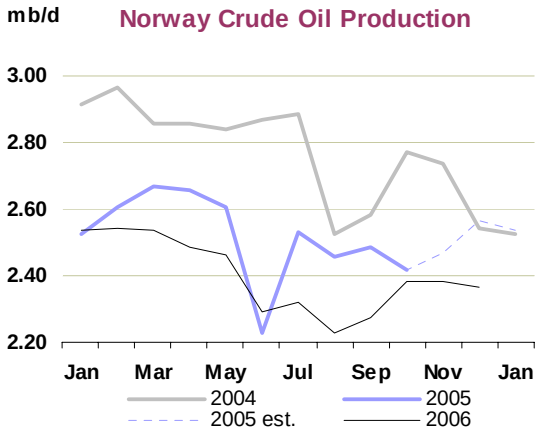
heavy/sour Maya and away from lighter Isthmus and Olmeca grades, and also geographically in favour of American destinations. Both trends are consistent with the recovery in US Gulf refining operations, since these units represent the primary market for Maya.

This Report continues to envisage scant upside potential for Mexican crude production in 2006. Reports from Pemex in December suggested Cantarell field output falling by some 6% this year, although incremental output in other areas could hold total crude production largely unchanged from 2005's average of 3.3 mb/d. Nonetheless, further progress was made last month in a fiscal reform package which should cut Pemex's tax burden by $2 billion in 2006. The latest Federal budget is based on an oil export price of $36.50/bbl. New legislation framed in December sets up three oil price stabilisation funds to distribute excess revenue between central government, Pemex and state governments in the event that prices exceed assumed levels.

North Sea

UK – October actual: Only marginal changes are made to annual UK oil production for 2005 and 2006, despite downward revisions to estimated November and December output from the Forties, Ninian and West of Shetlands areas. In all, UK oil production is expected to average 1.85 mb/d in 2005 and 1.66 mb/d in 2006. Data for 2005-to-date show a likely third successive year of declines of 200 kb/d or more. New field start-ups are limited in number and scale in 2006, although modest volumes of new liquids production did enter service in December from Total's Forvie North field and Ventures South Sycamore. The next major increment from the UK sector of the North Sea will be Nexen's 180 kb/d Buzzard field. However, its contribution to 2006 supply will be limited as start-up is not due before fourth quarter and initial plateau production may be closer to 100 kb/d.





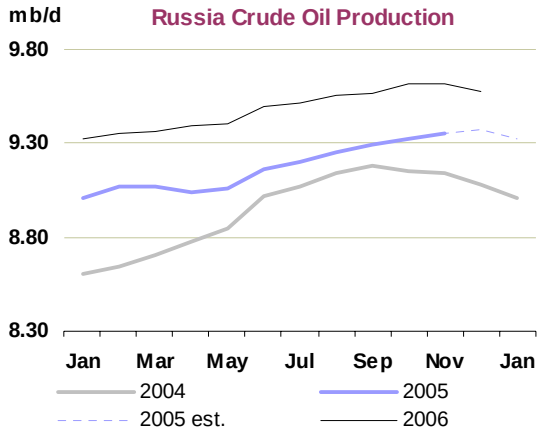
Norway – October actual, November provisional: October field-specific production data from the Norwegian Petroleum Directorate (NPD) came in some 45 kb/d lower than earlier provisional estimates. NPD's provisional November estimate for crude is also some 165 kb/d lower than this Report's estimate from last month. These downward revisions for fourth quarter liquids output feed

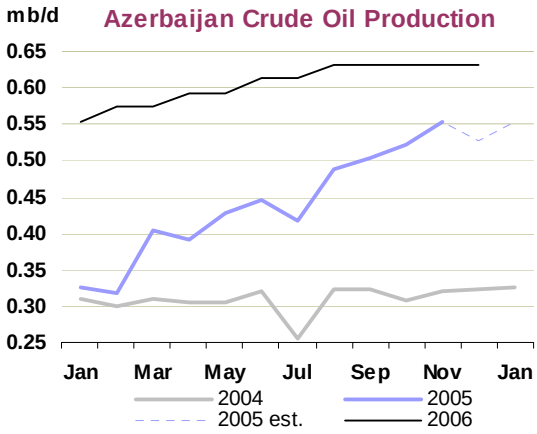
through to reduce 2005 and 2006 production by 20-25 kb/d. Storm related loading difficulties also affected Norne field production in January. Norwegian crude production is now estimated at 2.52 mb/d in 2005 and 2.4 mb/d in 2006, the latter being in line with a just-released NPD forecast for the year. If the 2006 output target is realised, it will represent a halving of the level of crude decline seen in 2005, when drilling delays, and unscheduled outages affecting the Draugen, Snorre, Visund and Gullfaks fields, played a prominent role. The decline in crude is, moreover, partly offset by rising NGL and condensate supplies, which are seen adding 100 kb/d in 2006.

Former Soviet Union (FSU)

Russia – November actual, December provisional: Production data for November and December result in a reversal of last month's 20 kb/d downward revision for 4Q 2005 Russian output. Preliminary indications for 2005 now show average Russian oil production of 9.48 mb/d and annual growth of 250 kb/d (2.7%) versus 2004. Absolute production levels are within 100 kb/d of this Report's original forecast for 2005 made in July 2004.

Performance in 2005 represents a marked slow-down from the 8-11% per annum growth seen during 2001-2004. As noted in previous Reports however, growth has been accelerating again since August as some of the recent financial, fiscal and regulatory uncertainties facing the upstream sector have begun to be resolved. Declining production from the Sibneft, Yukos and Yuganskneftegaz producing units, which underpinned the slow-down in Russian supply growth since mid-2004, appears to have stabilised. Indeed, production from Yuganskneftegaz has been increasing again steadily since April as field maintenance and investment levels have been stepped up by new owner Rosneft. It is





unlikely that double digit production growth will re-emerge for Russia while uncertainties continue to cloud the investment environment and until key expansion projects for export infrastructure are undertaken. The prevailing tax structure also acts as a break on expanding production. Nonetheless, existing company and government plans suggest that 2.5-3.5% production growth is feasible in the short and medium term. This Report therefore retains an expectation for 3.3% growth in 2006, with average output increasing to 9.8 mb/d. Key components of 2006's 300 kb/d increase come from the Sakhalin 1 project (+120 kb/d), Rosneft (+95 kb/d), TNK-BP and Lukoil (both +80 kb/d).

FSU net exports remained close to October's level in November. Total November exports of 8.03 mb/d comprised 2.47 mb/d of refined products and 5.56 mb/d of crude. Products exports stood 460 kb/d, or some 23%, above November 2004 levels. Crude exports were a more modest 190 kb/d (3.5%) higher than a year ago. A slow-down in Russian crude exports since the second quarter has been driven by relatively high crude oil export duties. This in turn has tended to favour refining crude domestically and exporting products, whose export duties have risen by less than crude.

Russian crude exports via the Transneft system are reported up by 40 kb/d in December with strong growth too in products exports. Russian products export growth may continue to exceed that for crude, with a statement by the head of state pipeline operator Transneft that crude shipments should be cut by 50% to 60% and diverted to new domestic refineries. Nonetheless, first quarter Russian crude export schedules show a 165 kb/d rise from fourth quarter 2005. Seaborne exports are slated to rise at the expense of Druzhba pipeline flows to central Europe. The Black Sea's Novorossiysk is expected to drive this increase, despite being prone to loading delays in winter. Further, early January delays for vessels transiting the Turkish Straits reached 24 days, double early-2004 levels.

FSU Net Exports of Crude & Petroleum Products

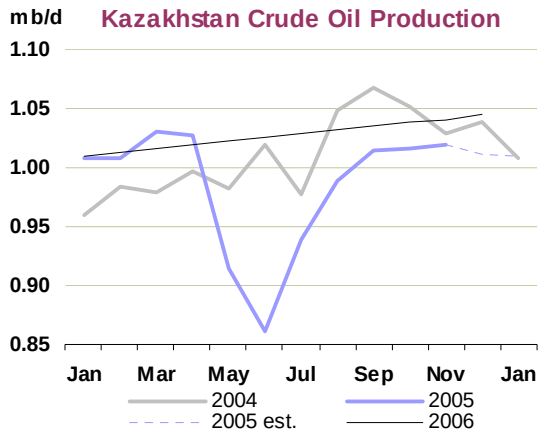
(million barrels per day)

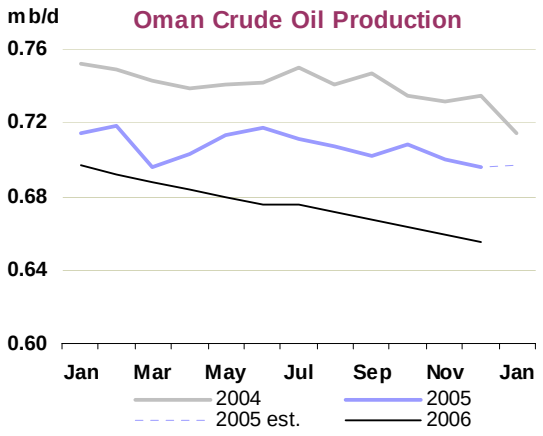
	2003	2004	4Q2004	1Q2005	2Q2005	3Q2005	Sep-05	Oct-05	Nov-05	Latest month vs. Oct-05	Latest month vs. Nov-04
Crude											
Black Sea	2.21	2.20	2.28	2.22	2.38	2.30	2.23	2.24	2.25	0.01	0.12
Baltic	1.06	1.51	1.48	1.64	1.61	1.57	1.64	1.53	1.52	-0.01	0.04
Artic/FarEast	0.21	0.25	0.30	0.19	0.19	0.22	0.21	0.21	0.15	-0.06	-0.17
Crude Seaborne	3.47	3.96	4.06	4.04	4.18	4.08	4.08	3.98	3.92	-0.06	-0.02
Druzba Pipeline	1.07	1.10	1.14	1.13	1.10	1.14	1.17	1.17	1.25	0.09	0.10
Other Routes	0.17	0.23	0.25	0.28	0.35	0.35	0.37	0.36	0.38	0.02	0.11
Total Crude Exports	4.71	5.29	5.46	5.45	5.64	5.58	5.62	5.51	5.56	0.05	0.19
Of Which: Transneft	na.	3.76	3.86	4.01	4.26	4.26	4.30	4.19	4.37	0.18	0.49
Products											
Fuel oil	0.83	0.90	0.87	0.78	0.91	1.02	0.98	0.97	1.04	0.07	0.21
Gasoil	0.82	0.84	0.78	0.89	0.80	0.85	0.88	0.93	0.87	-0.06	0.13
Other Products	0.41	0.46	0.42	0.58	0.56	0.58	0.59	0.64	0.57	-0.08	0.13
Total Product	2.05	2.19	2.07	2.25	2.27	2.45	2.45	2.53	2.47	-0.06	0.46
Total Exports	6.76	7.48	7.52	7.70	7.90	8.02	8.07	8.04	8.03	-0.01	0.65
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	8.06	8.03	8.02	-0.01	0.65

Sources: Petro-Logistics, IEA estimates

For 2006 as a whole, some of the impetus for expanding crude exports may shift away from Russia and towards Azerbaijan and Kazakhstan, with the inauguration of new pipeline capacity feeding the Mediterranean (see below) and China respectively.

Azerbaijan – November actual: Supplies continue to build from the BP-operated, offshore Azeri-Chirag-Guneshli fields, despite delays in completion of the Baku-Tbilisi-Ceyhan pipeline. The delays are centred on incomplete pumping equipment on the Turkish segment. Scheduled pipeline completion in February would likely result in regular liftings of Azeri Light crude from Ceyhan beginning in May. Despite these pipeline delays, production began on 5 January from the latest addition to the ACG complex, the West Azeri field, taking total output to an estimated 375 kb/d. Since opening in May 2005, pipeline fill to BTC has averaged only 25-35 kb/d. Recently some 250 kb/d of Azeri Light has been exported from the Georgian ports of Supsa and Batumi and 80 kb/d from Novorossiysk. ACG production is assumed to rise to 460 kb/d by late-2006, with total Azerbaijan production averaging 610 kb/d in 2006 from 450 kb/d in 2005. A now stronger ACG profile boosts the Azerbaijan forecast by 45 kb/d compared to our last forecast.





Kazakhstan – November actual: November oil production matched earlier expectations at 1.27 mb/d, including 246 kb/d of condensate and gas liquids from the Karachaganak field. However, Karachaganak subsequently saw unscheduled processing unit outages, cutting production by some 50-60 kb/d since late-December. This Report assumes a modest rise in Kazakh liquids output in 2006, reaching 1.3 mb/d compared to 1.23 mb/d in 2005. This is based on flat supply from the Chevron-

operated Tengiz complex, modest increases from Karachaganak (assuming a less outage-prone 2006), and re-instated crude production by operators who curbed supply after gas flaring restrictions imposed in 2005. The latest Kazakh government outlook is more pessimistic, envisaging flat 2006 production.

Other Non-OPEC

Oman – December partly estimated: Provisional estimates for 2005 show the ongoing decline in crude production from Oman, a trend evident since 1999 and expected to continue in 2006. Total crude output is seen averaging 705 kb/d in 2005 and 675 kb/d in 2006, compared to 740 kb/d in 2004. Condensate and NGL supply however is seen rising by some 10 kb/d in both 2005 and 2006 from 2004's level of 55 kb/d. Enhanced oil recovery projects are expected to boost crude production again around the end of the decade, but continued decline is seen as the most likely scenario in the interim.

Revisions to Other Non-OPEC Estimates

Baseline supply for fourth quarter 2005 in **Australia** is revised down by 25 kb/d, after lower than expected NGL supply and Carnarvon Basin (offshore NW Australia) production. Production for 2006 is revised down by 10 kb/d, to 525 kb/d. Also in Asia, lower baseline supply from **China** and **Malaysia** cut forecast non-OECD Asian output by a total of 40 kb/d for 2006. This Report's projection of flat, 3.6 mb/d production from China in 2006 is markedly more pessimistic than government plans. The forecast may therefore be subject to upward revision in future if there are continued signs of strong offshore and western onshore production growth.

Lower early fourth quarter 2005 supply indicators for **Argentina** lead to a 15 kb/d reduction in forecast supply for 2006, now expected to fall by 70 kb/d to 690 kb/d. Assessed **Cuban** supply is revised down by 15 kb/d for 2004, 2005 and 2006 in line with recently released monthly Joint Oil Data Initiative (JODI) data and government reported 2005 annual levels. Production is now seen averaging 70 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	14.09	14.38	0.29	14.07	14.30	0.23	-0.03	-0.09	-0.06
Europe	5.68	5.44	-0.25	5.66	5.40	-0.26	-0.03	-0.04	-0.01
Pacific	0.58	0.58	-0.01	0.58	0.56	-0.02	0.00	-0.01	-0.01
Total OECD	**20.36**	**20.40**	**0.04**	**20.31**	**20.26**	**-0.05**	**-0.06**	**-0.14**	**-0.08**
Former USSR	11.60	12.10	0.51	11.60	12.13	0.53	0.00	0.03	0.03
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	3.62	-0.01	0.00	-0.02	-0.01
Other Asia	2.73	2.83	0.10	2.73	2.81	0.08	0.00	-0.02	-0.02
Latin America	4.30	4.52	0.22	4.27	4.49	0.22	-0.03	-0.03	0.00
Middle East	1.86	1.81	-0.05	1.87	1.81	-0.05	0.00	0.01	0.00
Africa	3.70	4.25	0.55	3.70	4.25	0.55	0.00	0.00	0.00
Total Non-OECD	**27.99**	**29.31**	**1.32**	**27.96**	**29.27**	**1.31**	**-0.03**	**-0.04**	**-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	**50.21**	**51.61**	**1.39**	**50.12**	**51.43**	**1.30**	**-0.09**	**-0.18**	**-0.09**

OMR = Oil Market Report

On the upside, provisional data from JODI suggests higher 2005 total oil production from **Yemen,** which is now seen averaging 412 kb/d in 2005 and 414 kb/d in 2006, respectively 15 kb/d and 25 kb/d higher than in last month's forecast. New developments in Blocks 9, 43, 51 and S1 offset decline from the more mature Marib and Masila blocks.

OECD STOCKS

Summary

- **OECD total industry oil stocks** fell by 11 mb in November, closing at 2678 mb or 47 mb above the previous year. The draw was centred in the Pacific, where both crude and product inventories declined over the month. This was partly offset by a stock build in the US, mostly accounted for by a rise in middle distillates. In comparison, European oil inventories were relatively unchanged. Forward demand cover by OECD industry stocks came to 52 days in November, one day lower than last month and on a par with 2004.

Preliminary Industry Stock Change in November 2005 and Third Quarter 2005

(million barrels per day)

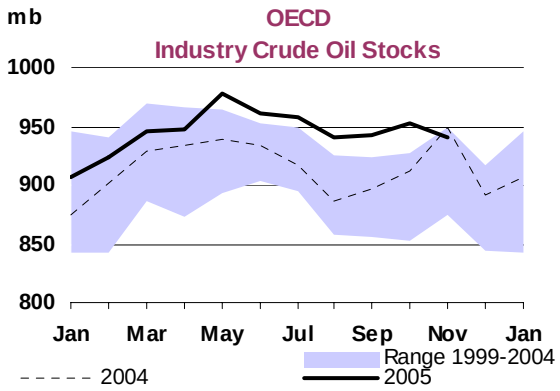
	November (preliminary)				*Third Quarter 2005*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.07**	**-0.03**	**-0.32**	**-0.41**	**-0.13**	**0.02**	**-0.09**	**-0.20**
Gasoline	0.07	-0.03	0.00	0.04	-0.19	0.03	-0.02	-0.19
Distillates	0.43	-0.08	-0.18	0.17	0.08	0.19	0.21	0.48
Residual Fuel Oil	0.16	0.11	-0.02	0.25	-0.04	0.04	0.01	0.01
Other Products	-0.25	-0.01	-0.10	-0.35	0.01	0.00	0.01	0.02
Total Products	**0.41**	**-0.01**	**-0.30**	**0.11**	**-0.15**	**0.26**	**0.20**	**0.31**
Other Oils[1]	0.00	-0.03	-0.03	-0.07	0.12	0.04	0.00	0.15
Total Oil	**0.34**	**-0.06**	**-0.65**	**-0.37**	**-0.16**	**0.32**	**0.11**	**0.26**

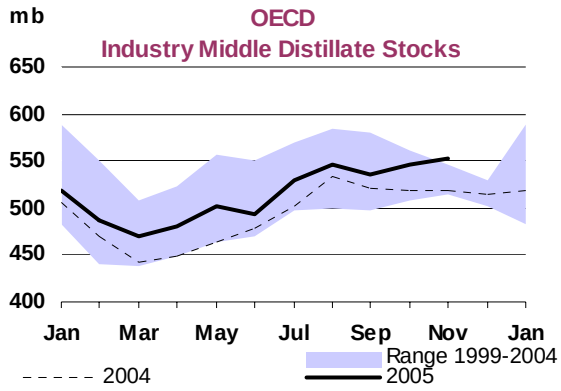
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude oil stocks** fell by 12 mb in November, to close at 941 mb, 9 mb below year-ago levels. The draw came in the Pacific where refinery activity in both Japan and Korea trended above seasonal norms, while crude imports were on average weaker. Crude inventories in Europe and North America held relatively flat in comparison, albeit from an upwardly revised base.

- **OECD industry gasoline stocks** were relatively unchanged in November, building by only 1.2 mb as compared to a five-year average build of 10 mb. OECD gasoline stocks closed at 364 mb, trending below their five-year range and 13 mb below 2004. Forward gasoline demand cover came to 25 days, one day below levels of a year ago. In the US, refinery throughputs rebounded with the recovery of Gulf Coast activity and high imports continued apace. However, the seasonally anticipated December build in gasoline stocks appeared to be held in check by unusually high inland deliveries.

- **OECD industry distillate stocks** rose 5 mb in November with a build in North America outpacing draws in Europe and the Pacific. The US saw inventories rising on a combination of recovering refinery output, record imports of diesel and kerosene and lower demand due to warmer-than-normal weather. Forward prices in gasoil futures in the Atlantic Basin remained supportive of moving product into storage. In the Pacific, gasoil and kerosene stocks fell as demand picked up with the onset of colder weather and as refiners exported product to the US and Europe.



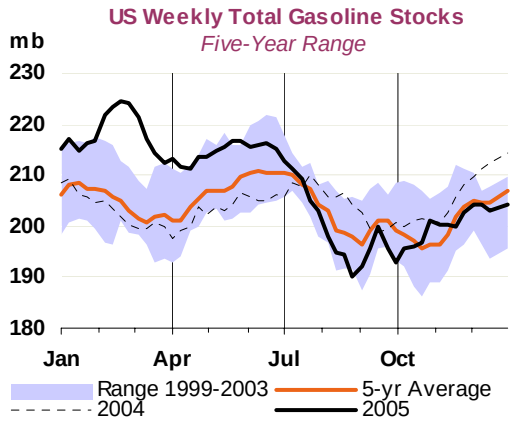


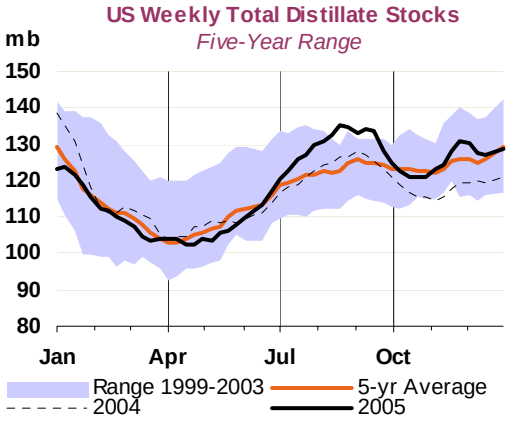
OECD Industry Stock Changes in November 2005

OECD North America

North American industry crude stocks held relatively flat in November, albeit from an upwardly revised base. September and October crude stocks for North America were revised upwards by 20 mb and 10 mb respectively, pegging inventories at 440 mb or 31 mb above 2004. According to weekly data, US-50 crude stocks continued to trend sideways in December. Relatively high crude imports sustained inventories at 320 mb in spite of refinery throughputs recovering to pre-hurricane levels and a still sizeable quantity of offline production in the US Gulf of Mexico.

The much-talked-about minimisation of stocks ahead of end-year tax considerations clearly did not take place. The current contango market for crude and products futures provides offsetting incentives. With future oil priced at a strong premium to prompt barrels, the price difference can mitigate tax considerations in relation to end-of-the-year inventory holdings. Refiners are likely however to have been managing stocks ahead of a relatively heavy scheduled maintenance in the first quarter of 2006.



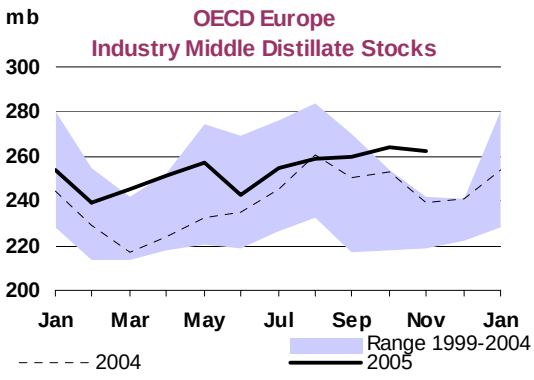


North American product inventories rose by a total of 12 mb in November, led by increases in US distillate inventories. The build in distillates stemmed from increasing production, surging imports and lower demand for heating fuels due to warmer-than-normal weather. Colder weather in early December temporarily depressed heating oil stocks, however, these recovered by end-month, notably in the main consuming region of the Northeast. Overall, distillate stocks closed higher by end-month on strong builds in diesel following high imports and a near-return to pre-hurricane refinery output levels. Total US distillate stocks are currently trending around their five-year average and at about 8 mb above last year.

US-50 gasoline inventories, although closing the first week of January at 9 mb below last year, have rebounded to their five-year average. Inland deliveries (a proxy for demand) were exceptionally strong in December, delaying a seasonal replenishing of stocks, despite continued high imports. The recovery of industry gasoline stocks ahead of refinery maintenance may in turn accelerate in January with a slowdown in deliveries to distribution centres (see Demand Section). US forward demand cover held at 23 days in the first week of January, one day below last year.

OECD Europe

European industry crude stocks trended sideways in November, closing at 336 mb or 13 mb below 2004. Crude inventories fell in France, Germany, Italy and the Netherlands on continued high refinery runs. Although simple margins turned negative in November, throughputs for Europe as a whole were running 5% higher than in 2004. Offsetting builds were seen in Norway and the UK as high freight rates and tepid US demand reduced opportunities for transatlantic arbitrage shipments for regional crudes.



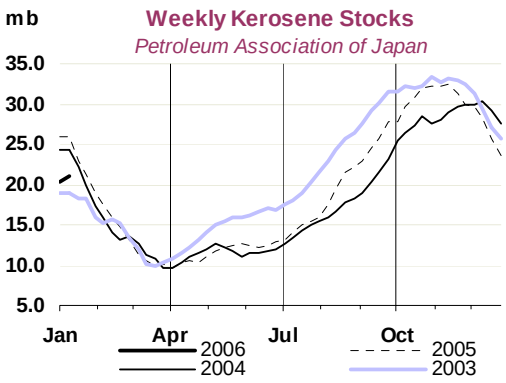
On the product side, industry stocks also held flat for the month as a draw in distillates was balanced by a

build in fuel oil. Distillates nudged lower on an uptick in demand in France and Germany, where weather conditions turned colder in November. Fuel oil inventories built on strong refinery output, high imports of Russian material and limited export opportunities to the Asia Pacific. Total end-November product stocks of 555 mb were above their five-year range and 28 mb above 2004.

OECD Pacific

Crude stocks declined by 10 mb in the Pacific in November with draws seen in both Japan and Korea. Refinery runs continued to increase seasonally in both countries, reaching 98% in Korea, the highest level since April 2001, and 90% in Japan. In Korea, the decline came from oil stored in vessels at ports, in line with a slowdown in imports over the month. Spot purchases of West African material were absent due to expensive freight rates. Pacific crude stocks ended the month at 165 mb or 27 mb below levels of a year ago.

Product inventories fell by a total of 9 mb in November, with declines seen both in Japan and Korea. Declines occurred notably in distillate with the onset of colder weather prompting higher heating demand. November saw temperatures fall below normal, increasing kerosene use. In addition, Korean exports of gasoil and jet fuel to Europe continued apace on strong gasoil price differentials. Also, Japan's oil input into electricity generation almost doubled year-on-year in November due to low hydro-electricity output leading to a slight draw in fuel oil inventories.



Weekly data from the Petroleum Association of Japan (PAJ) further show that Japanese product stocks, in particular for kerosene, continued to decline in December. This was due to the coldest December in 20 years, and to a lesser extent to some nuclear outages at the end of the month, which increased demand.

The Japanese government's decision to re-establish mandatory industry stock holding obligations of 70 days from 1 January 2006 are unlikely to have a significant impact on industry stocks as these are already trending above the compliance level.

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

OECD total industry stocks ended November at 2678 mb, down 11 mb from October but 47 mb higher than in 2004. Only total stock levels for the Pacific ended below the position in 2004. A lower year-on-year position of crude stocks in Europe was balanced by a surplus in product inventories. OECD forward demand cover came to 52 days in November, one day lower than October and on a par with 2004. On a regional basis, forward cover came to 49 days for North America, 62 days for Europe and 44 days for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for November 2005

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**30.6**	**-12.4**	**-27.1**	**-8.9**	**Total Oil**	**2.0**	**1.3**	**-5.1**	**0.4**
Total Products	20.3	28.0	-8.5	39.9	*Versus 2003*	1.7	1.2	-1.2	1.0
Other Oils[1]	13.5	2.0	0.2	15.7	*Versus 2002*	0.0	2.7	2.2	1.3
Total Oil	**64.4**	**17.6**	**-35.4**	**46.7**	**Total Products**	**0.5**	**1.9**	**-1.5**	**0.5**
Versus 2003	73.2	27.4	0.2	100.8	*Versus 2003*	0.3	0.8	-1.0	0.2
Versus 2002	67.2	52.1	12.0	131.3	*Versus 2002*	-0.6	1.0	1.0	0.2

1 includes feedstocks, NGLs and other hydrocarbons

October preliminary data were revised up for all regions by a total of 37 mb, including a 23 mb revision to September. A large part of the revisions was accounted for by Mexican crude stocks. These were revised up by 15 mb for September and 12 mb in October, reversing a previous downwards revision of the same magnitude reported last month. Upward revisions were also made to US products, in particular to distillates inventories for October. European products were also revised upwards, with Germany, Italy and Netherlands accounting for most of the change. Revisions to the Pacific were smaller in comparison.

Revisions versus 13 December 2005 Oil Market Report

(million barrels)

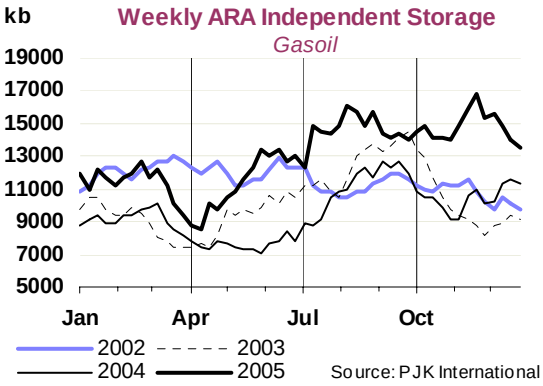
	North America		*Europe*		*Pacific*		*OECD*	
	Sep 05	Oct 05	Sep 05	Oct 05	Sep 05	Oct 05	Sep 05	Oct 05
Crude Oil	**20.2**	**11.1**	**2.2**	**1.3**	**0.0**	**0.2**	**22.3**	**12.6**
Gasoline	0.0	-2.1	-0.6	1.6	0.1	-0.2	-0.5	-0.7
Distillates	0.0	5.2	3.7	3.9	0.0	0.7	3.7	9.8
Residual Fuel Oil	0.0	0.5	-1.0	2.1	0.0	0.3	-1.0	2.9
Other Products	0.0	5.7	-0.4	2.7	0.0	1.0	-0.4	9.5
Total Products	**0.0**	**9.3**	**1.6**	**10.4**	**0.1**	**1.8**	**1.7**	**21.5**
Other Oils[1]	-0.6	1.9	-0.2	0.8	0.0	0.0	-0.8	2.7
Total Oil	**19.6**	**22.3**	**3.6**	**12.6**	**0.0**	**2.0**	**23.2**	**36.9**

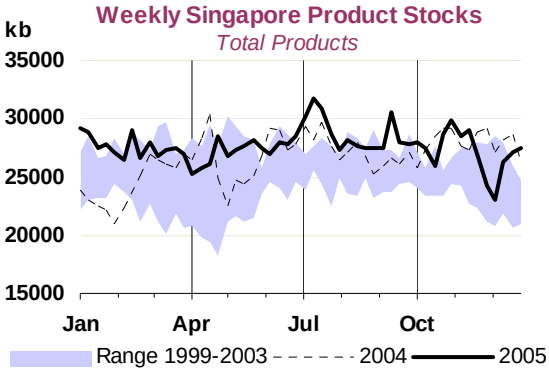
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

Recent Developments in ARA Independent Storage

Gasoil inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area fell back in December from their recent six-year peak in mid-November, but are still trending well above last year and their five-year average. Exports to the US of Russian gasoil continued apace and European inland demand picked up with the onset of colder weather. Draws from ARA storage remained modest due to high regional refinery throughputs and reliance by end-users on tertiary inventories. German consumer stocks closed November at a seasonal low of 58% of capacity, and trade reports indicate that stocks fell further in December. At the same time, imports from the FSU, South Korea, India and Japan added to supplies. As such, prompt prices were discounted relative to futures, maintaining financial incentives to hold distillates in storage.

Gasoline stocks trended sideways in December as strong regional refinery output was balanced by continued high exports to the US, Nigeria and Iran. Incremental buying also came from the UK, where an explosion at the Buncefield fuel depot led to an up-tick in demand. Logistical problems at the distribution level and heightened retail sales prompted the increase rather than a physical shortage. Russian gasoline, previously delivered to the US as a result of temporary product specification waivers, was also heading to Europe as the waivers came to their term.





Regarding other products, fuel oil inventories stayed high as the arbitrage to Asia was limited on sluggish Chinese demand and high freight rates. Shipments from the Baltic also rose ahead of the closure of Russia's canal system for winter, stopping river barge shipments.

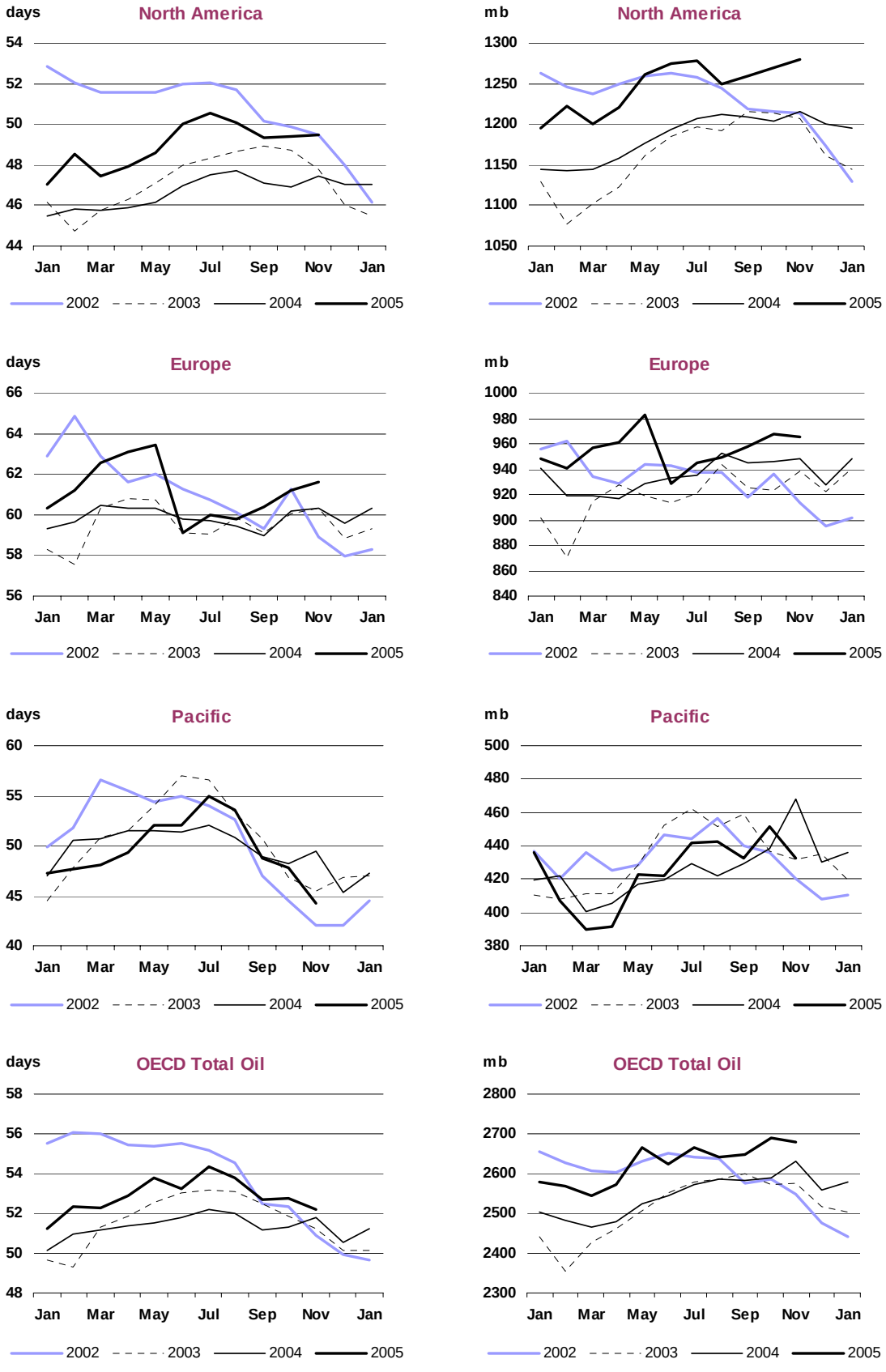
Recent Developments in Singapore Stocks

Product inventories in Singapore, as surveyed by International Enterprise, moved higher in December. An increase in import demand in the region proved weaker than seasonally anticipated. Indonesian demand has been sharply lower since the government's decision to increase domestic prices. Similarly, sales into Vietnam, the region's second largest gasoline importer, were down with the doubling of tariffs from the beginning of December. Chinese buying interest ahead of the Lunar New Year has also been reported weaker than expected. At the same time, Indian exports were rising, particularly in light distillates. For middle distillates, weak demand and a strong contango in paper markets for gasoil and kerosene supported stock builds. Fuel oil inventories held above their five-year range at the end of December. Arrivals from Europe continued at high levels but some demand was supported by a strong Singapore bunker market.

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

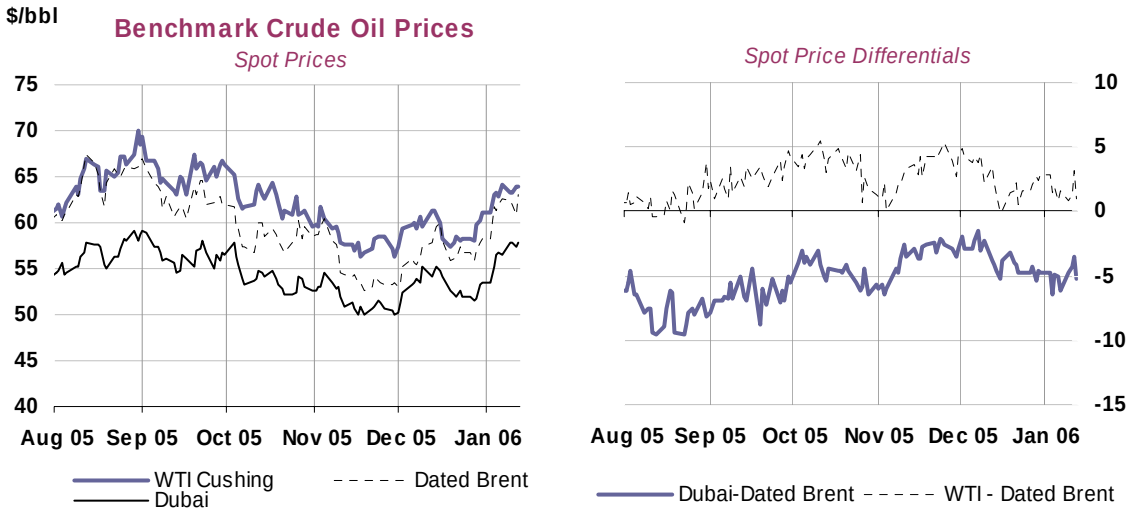
Summary

- **NYMEX WTI** averaged $59.45/bbl in December, rising 1.9% while IPE Brent averaged $57.63/bbl, 2.4% higher than November. Both contracts pushed well above $61/bbl in early January, supported by strong gasoline prices and uncertainty concerning Iran's nuclear program and Nigerian outages. The contango structure for both WTI and Brent remains in place through the next 12 months, reflecting the need for higher inventory cover in an environment of constrained supply capacity (upstream and downstream).

- **Benchmark crude** prices rose from mid-December into January, with WTI and Brent trading above $62/bbl while Dubai rose above $55/bbl. Differentials between the benchmarks showed relative strength in Brent from the second half of December onwards, limiting arbitrage sales of swing West African supplies. The tighter physical Brent market saw a near-disappearance of the contango in the forward cash market over the period.

- **Light product** prices saw mixed trends between Western and Asian markets in December and early January. Gasoline posted contra-seasonal strength in the Atlantic Basin. Higher prices were driven by relatively strong refinery deliveries and flat inventories in the US while arbitrage opportunities buttressed prices in Europe. Heating oil on the other hand saw only modest gains on average despite the arrival of colder temperatures. Physical gasoil prices continued to be discounted against front month futures on ample prompt supplies. In contrast, colder-than-normal temperatures in Northeast Asia spurred a rally in Singapore for kerosene, used as a heating fuel, while gains in gasoline and naphtha proved modest.

- **Product futures** price structures were in contango over the course of December and early January. The forward price of gasoline on the NYMEX rose seasonally relative to the prompt month, encouraging a rebuilding of inventories. However, the increase in the forward price also followed concerns over the adequacies of gasoline supply ahead of summer due to product specification changes this year as well as heavy first quarter refinery maintenance. The futures crack spread for gasoline traded at broadly similar levels to that of heating oil on the NYMEX by the end of December and non commercial participants lengthened their net-buying positions on the contract.



Oil Futures Prices in December

Monthly average crude futures firmed in December, with gains holding up in the first half of January. In the absence of a marked shift in perceptions concerning fundamentals, cold weather in the US appeared to drive market sentiment in the early part of December. By the beginning of January, uncertainty in the Middle East and Nigerian outages pushed WTI and Brent crude futures back above $62/bbl compared to a low of $57.34/bbl and $56.11/bbl respectively in December. Strength in gasoline was a supportive factor. Monthly average prices for crude futures increased by over a dollar in December, and for the first half of January seemed to have stabilised above $62/bbl.

Prompt Month Oil Futures Prices

(monthly and weekly averages, $/bbl)

	Oct	Nov	Dec	Dec-Nov		Week Commencing:				
				Avg Change	%	12 Dec	19 Dec	26 Dec	02 Jan	09 Jan
NYMEX										
Light Sweet Crude Oil	62.27	58.34	59.45	1.10	1.9	60.31	58.12	59.84	63.39	63.69
Unleaded Gasoline	73.33	63.14	66.79	3.65	5.5	68.20	64.37	67.90	74.94	73.04
No.2 Heating Oil	81.17	72.60	73.35	0.75	1.0	75.38	72.45	70.88	75.63	72.91
No.2 Heating Oil ($/mmbtu)	13.94	12.46	12.59	0.13	1.0	12.94	12.44	12.17	12.98	12.52
Henry Hub Natural Gas ($/mmbtu)	13.45	11.70	13.43	1.73	12.9	14.46	13.52	11.23	9.99	9.22
IPE										
Brent	59.50	56.23	57.63	1.41	2.4	59.11	56.45	57.75	61.72	62.18
Gasoil	79.72	71.56	70.69	-0.87	-1.2	73.00	69.86	68.94	73.42	71.55
Prompt Month Differentials										
NYMEX WTI - IPE Brent	2.77	2.12	1.82	-0.30		1.21	1.67	2.09	1.67	1.51
NYMEX No.2 Heating Oil - WTI	18.90	14.25	13.90	-0.35		15.06	14.33	11.04	12.24	9.22
NYMEX Unleaded Gasoline - WTI	11.06	4.80	7.34	2.55		7.89	6.25	8.07	11.55	9.35
NYMEX 3-2-1 Crack	13.68	7.95	9.53	1.58		10.28	8.95	9.06	11.78	9.31
NYMEX No.2 - Natural Gas ($/mmbtu)	0.48	0.77	-0.83	-1.60		-1.52	-1.08	0.94	3.00	3.30
IPE Gasoil - IPE Brent	20.22	15.33	13.05	-2.28		13.89	13.41	11.19	11.70	9.37

Forward curves in the futures markets remained in contango in December (forward prices above prompt prices). The fact that futures prices continued to stretch their premium forward beyond 12 months reflected a desire for greater inventory cover, this despite stocks in OECD countries well positioned compared to their historical ranges. Prompt prices increased faster than those for future delivery. The rise came amid noises from some OPEC members of possible production cuts at the organisation's upcoming meeting on 31 January. The return of fund money into the market may have also supported prices after some liquidation of positions at the end of the 2005. Commodity based indices have risen since the beginning of the year and continue to show significant year-on-year gains. The total return on the closely watched Goldman Sach's GSCI index was up 25% against last year on 11 January while the GS Energy Index had risen by 33%.

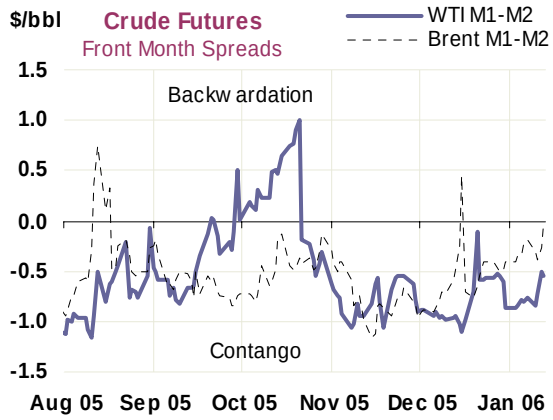
On the geopolitical front, uncertainty concerning the supply of Russian natural gas to Europe temporarily shored up prices but the health of Israel's Prime Minister, Ariel Sharon, in the broader context of Israeli-Palestinian relations, did not appear to have an impact on sentiment. However, worries over Iran's nuclear program have re-emerged. Concern that Iran could be referred to the U.N. Security Council, where it would face the ultimate threat of sanctions, could add to volatility. The market also took on board tensions in Nigeria where unrest is affecting production.

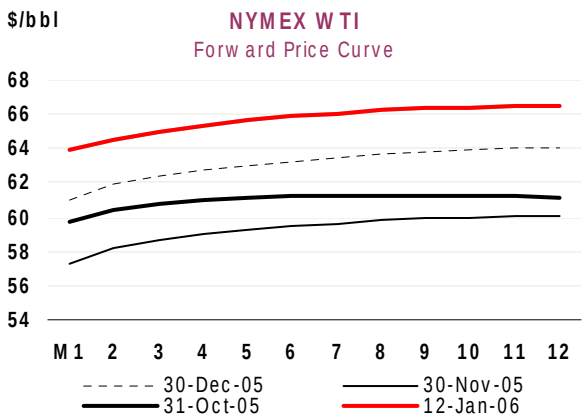
There are no signs of a material weakening of the global economy and, as a result, of a subsequent fall-off in underlying oil demand. While the world oil balance shows a seasonal decline in second quarter demand, this pertains to product demand and is mostly centred on distillate consumption in the OECD Pacific. As such, the same fundamental support for prices that was seen in 2004 and 2005 remains in place for the time being at least. Global demand growth is forecast to recover strongly this year and supply side factors are likely to continue to be at the forefront of concerns despite some increases in capacity on the refining and production side.

Product futures gained alongside crude futures and contangos remain in place in these markets as well, supporting moving product into storage. Trends in prices ran against seasonal expectations, with unleaded gasoline on NYMEX rising strongly while heating oil futures declined. The futures front month crack spread for gasoline rallied, rivalling heating oil by early January. Non-commercial players on NYMEX's unleaded gasoline contract lengthened their net-buying position for gasoline during December and into early January.

Crude Futures

Light sweet crude on the NYMEX averaged $59.45/bbl in December, rising 1.9% from November while IPE Brent averaged $57.63/bbl gaining 2.4%. Both contracts moved above $62/bbl by early January, broadly trending sideways thereafter. Time spreads in the front contracts narrowed over December and into early January, more noticeably for IPE Brent while the contango structure for both contracts remained in place through the next 12 months.

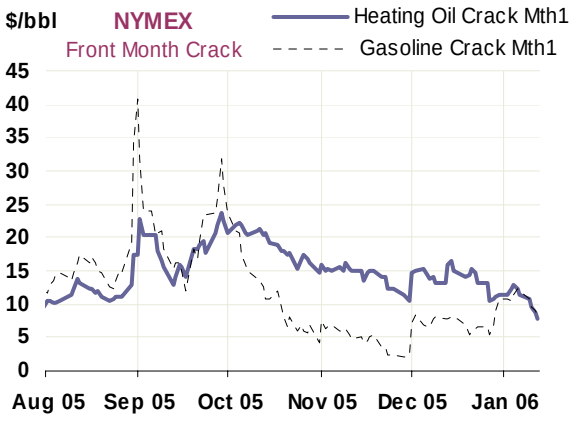


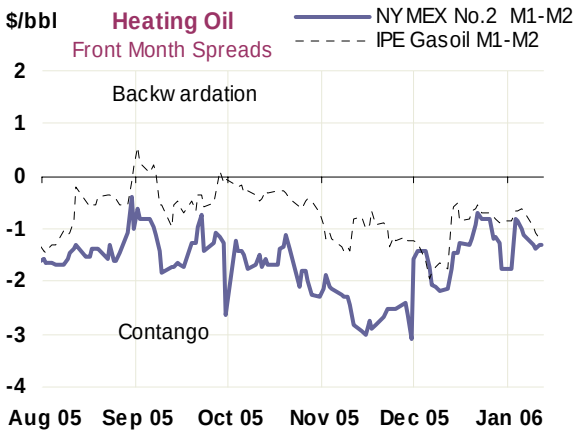


Despite Atlantic Basin crude oil stocks being above their five-year averages in the OECD, the forward price curve suggests that demand for inventory in a capacity constrained environment remains high. The more rapid narrowing of the discount for the prompt month in IPE Brent followed the tightening of price spreads in the forward physical market. The IPE Brent differential narrowed from $0.91/bbl on 1 December to near parity on 12 January, while during the same period, the spread for NYMEX WTI moved from $0.88/bbl to $0.55/bbl. The deeper discount for WTI is partly explained by crude stocks returning to levels approaching storage capacity at Cushing in the US Mid-continent, where the contract is physically delivered.

Product Futures

The arrival of colder temperatures in the US buoyed heating oil futures in the first half of December. However, the January contract (traded in December) retrenched in the second half of the month as weather forecasts pointed to a warmer-than-normal first quarter. Consequently, there were expectations that distillate demand would be weaker than expected and inventories of heating oil remained well positioned in the main consuming Northeast region. Non-commercial players turned to a net buying position in December, and increased their length in January. Movements in the prompt month IPE gasoil followed broadly similar lines.





Prompt month gasoline led gains in futures prices in December, rising on average by 3.65%. Preliminary US data for refinery inland deliveries (a proxy for demand) were surprisingly strong while inventories held relatively flat at a time when they would be expected to build seasonally. The increase in price also followed from concerns over adequacy of supplies due to expected heavy refinery maintenance and changes in product specifications.

Crude Oil Prices in December

Benchmark Crudes

Average prices for benchmark crudes in the Atlantic Basin rebounded in December after retrenching in November. Gains in Brent outpaced those for WTI on increased European refinery buying for crudes priced off the North Sea marker. Brent's discount relative to WTI fell to $2.91/bbl on 30 December from $4.43/bbl at the end of November. WTI's weaker premium, alongside relatively firm freight rates, reduced US interest for spot purchases of related North Sea and West African grades. In contrast, the average Brent to Dubai spread was stable over the period. Relative strength in fuel oil prices in Asia, along with still-positive cracking margins, supported Dubai as well as Oman. The spread, however, widened through December, limiting sales of West African crudes to Asia.

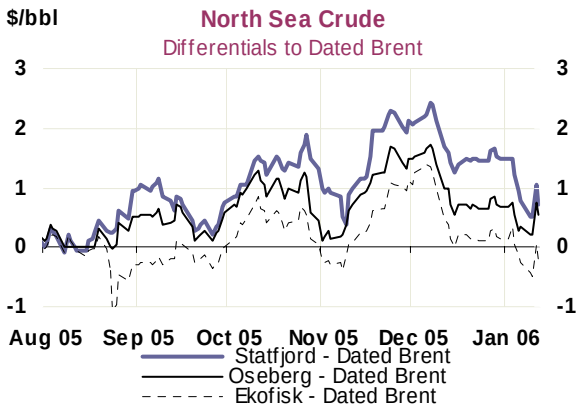
Spot Crude Oil Prices and Differentials

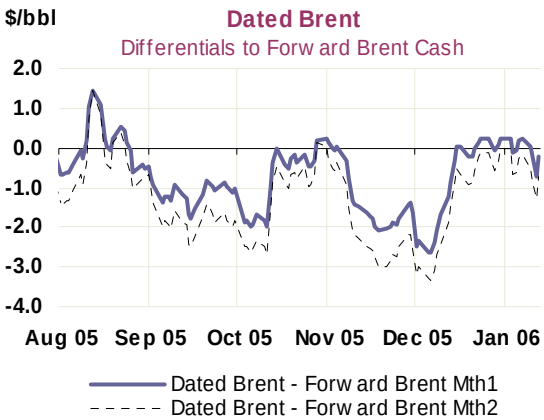
(monthly and weekly averages, $/bbl)

	Oct	Nov	Dec	Dec-Nov Avg Change	%	Week Commencing: 12 Dec	19 Dec	26 Dec	02 Jan	09 Jan
Crudes										
Dated Brent	58.61	55.17	56.91	1.73	3.1	58.92	56.43	57.21	61.91	62.06
Brent (Asia) Mth1 adjusted	60.06	56.46	57.87	1.41	2.5	59.42	56.75	56.98	61.17	62.95
WTI (Cushing) Mth1 adjusted	62.28	58.27	59.41	1.13	1.9	60.31	57.95	59.77	63.35	63.63
Urals (Mediterranean)	55.64	52.14	54.53	2.39	4.6	56.95	53.38	53.41	57.62	58.11
Urals (Northwest Europe)	54.83	51.51	53.44	1.93	3.8	55.47	51.88	52.46	56.91	58.08
Bonny Light	60.46	57.00	57.87	0.87	1.5	59.57	56.56	57.37	61.82	62.39
Dubai Mth1 adjusted	53.96	51.39	53.20	1.81	3.5	54.63	52.23	52.49	56.28	57.63
Dubai Swaps Mth1 adjusted	54.40	51.81	53.44	1.63	3.1	54.92	52.39	52.63	56.40	57.82
Tapis (Dated)	61.90	58.36	62.02	3.65	6.3	63.63	62.00	62.39	66.49	68.58
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	3.67	3.10	2.50	-0.60		1.40	1.52	2.56	1.44	1.58
Urals (Mediterranean)	-2.97	-3.04	-2.38	0.66		-1.96	-3.05	-3.81	-4.29	-3.95
Urals (Northwest Europe)	-3.78	-3.67	-3.47	0.20		-3.44	-4.56	-4.76	-5.00	-3.97
Bonny Light	1.85	1.82	0.96	-0.86		0.65	0.13	0.16	-0.09	0.34
Dubai Mth1 adjusted - Dated Brent	-4.64	-3.79	-3.71	0.07		-4.29	-4.20	-4.72	-5.64	-4.42
Dubai Swaps - Brent Asia	-5.66	-4.65	-4.43	0.21		-4.51	-4.36	-4.36	-4.77	-5.13
Tapis (Dated)	3.29	3.19	5.11	1.92		4.72	5.57	5.18	4.58	6.53
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-0.49	-0.74	-0.58	0.16		-0.62	-0.54	-0.39	-0.50	-0.59
Forward WTI Cushing Mth1-Mth2 adj.	0.31	-0.71	-0.71	0.00		-0.95	-0.32	-0.60	-0.75	-0.62

Europe and West Africa

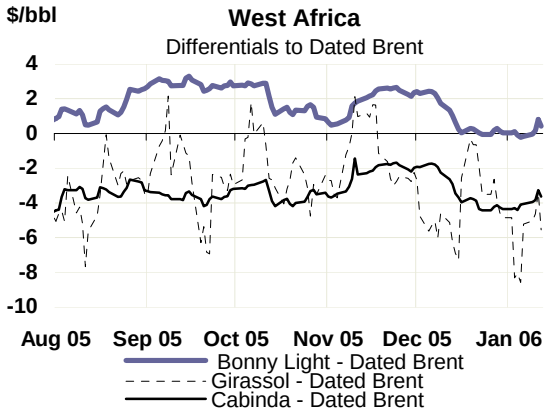
North Sea crudes saw their premiums fall from the highs reached at the end of November. However, on an average basis the spread for Ekofisk, Oseberg, Statfjord and Forties moved up as European refiners actively bid for January loading barrels. This tightened the physical Brent market, removing the contango between dated (physical) Brent prices and those for forward physical delivery in early January. Premiums for North Sea grades subsequently weakened with a number of January cargoes reported to be still available as the February loading programmes were released.

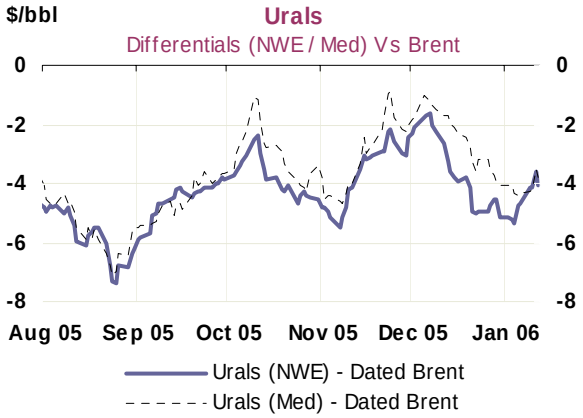




Differentials of West African crudes against Brent, in contrast to North Sea crude, weakened dramatically in December despite a late-month force majeure on Bonny Light. With closed spot transatlantic arbitrage, prices for Bonny Light became discounted relative to comparable Azeri Light and Saharan Blend crudes in the Mediterranean. While Asian interest for West African crudes loading in January was reported early in the month, supported by a short-lived narrow Brent-Dubai spread, this subsided in the second half of December.

A lack of US refiner interest due to high freight rates and comfortable domestic inventories saw Bonny light fall to parity with Brent by end-December while weaker Asian interest saw medium sweet Angolan Cabinda's discount to Brent widen to $4.00/bbl. In contrast, February and March loading barrels saw the return of buying interest from China and India, stabilising differentials. Prices for Nigerian grades were also supported following January attacks on Shell's oil facilities targeting the EA and Forcados streams and briefly interrupting up to 226 kb/d of oil supplies.

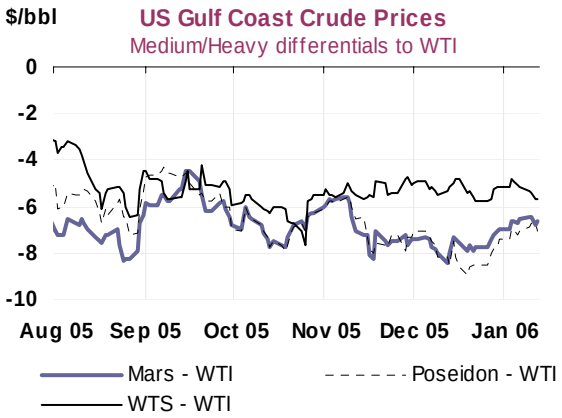


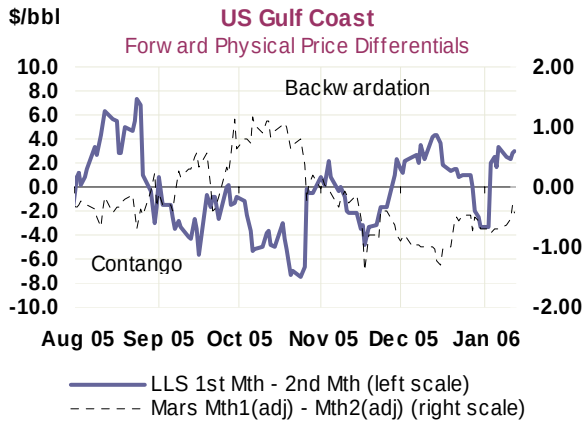


Monthly Urals differentials to Brent were on average stronger in December, but early-month strength gave way to a weakening, putting the differential back to late October lows by end-month. Lower cracking margins and negative simple margins dampened refiner interest. Weather-related loading delays also limited interest in the grade, with buyers seeking Iranian barrels instead.

The Americas

Though December saw the gradual return of Gulf Coast refiners to more normal operating rates, regional heavy and sour grades did not materially improve their differentials to WTI given comfortable domestic inventories. Heavy Mexican Maya temporarily narrowed its discount while sour grades like WTS, Mars and Poseidon ended broadly even against the benchmark towards the end of the month.





Sentiment for sour barrels firmed in January for barrels loading in February and March. The absence of arbitrage sales of Urals and lower December Iraqi exports were supportive of sour grades. Also, expectations of higher crude demand at the end of the scheduled maintenance in the first quarter led forward physical prices for Mars to deepen their contango for most of the month.

In contrast, physical prices for light sweet LLS on the Gulf Coast flipped into backwardation in December. Expensive freight and negative cracking margins on Brent favoured spot purchases of the domestic grade rather than West African or North Sea crude. Earlier movement of crude inland and reports of storage space for light sweet crude becoming scarce at the main Louisiana Offshore Oil Port also played a role weakening WTI prices relative to LLS.

Middle East and Asia

Average prices for medium-heavy sour crudes Oman and Dubai held firm relative to Brent, drawing support from rising fuel oil prices in Asia. Temperatures in Northeast Asia were colder than normal, lifting utility demand for fuel oil but also for medium sweet crude used in direct burn. Distillate rich grades from Abu Dhabi were sought after as a result of strong demand for kerosene, used as a heating fuel. Firm kerosene prices also lifted the price of light sweet Asian grades like Tapis. Prices for Tapis saw their premium relative to Oman/Dubai and Minas widen over December, the increase also being supported by the crude's high yield of LSWR and tight supplies of similar Australian crude.

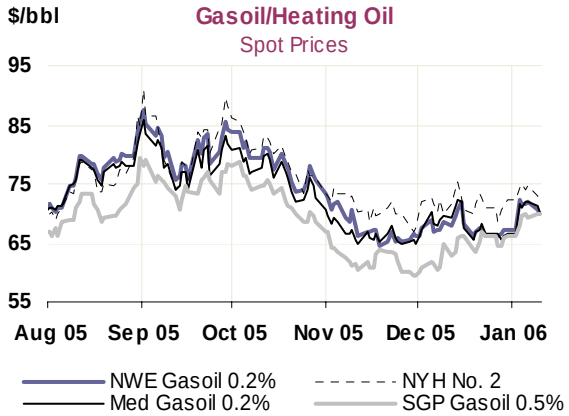
Delivered Crude Prices in December

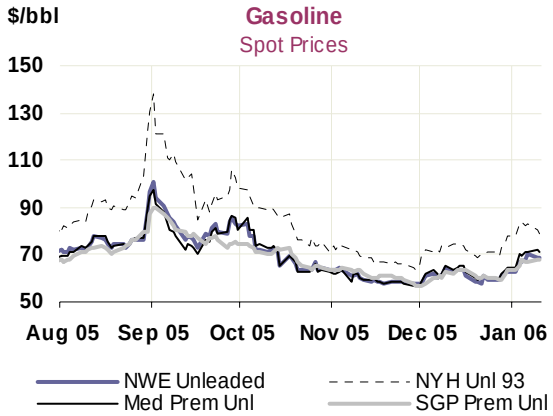
The price of the average barrel of oil delivered to all IEA countries fell from almost $60 to around $57 per barrel in October as global crude prices dropped on warm autumnal temperatures and weaker US demand. North American IEA countries paid $56.40 for the average crude barrel delivered in October, having paid $59.52 per barrel in September. Crude delivered to European IEA countries in October cost, on average, $3.43 per barrel less than September prices, at $56.73 per barrel. IEA Pacific countries experienced less dramatic price decreases, paying $58.41 per barrel of delivered crude which was 87 cents less than in September but still over $17 more than one year ago.

Product Prices in December

Spot Product Prices

Product markets rose with gains in crude prices but contrasting trends in light products emerged between Western and Asian markets. On an average basis, gasoline in the Atlantic Basin outperformed distillates in New York Harbour and Northwest Europe in December. Firming US gasoline spot prices were supported by preliminary indications of strong demand and lower domestic production. The increase in spot prices along with a widening contango in the NYMEX gasoline contract lifted European values. European prices, in addition to arbitrage opportunities, were boosted by an explosion at a UK fuel depot. Distillate prices in the Atlantic Basin saw more moderate gains on average, with values weakening in the second half before recovering in January. Despite colder weather, price movements in heating oil were capped by prompt supply availability. Rising refinery output, import flows and healthy inventories limited the impact of a seasonal increase in demand.





Contrasting with Atlantic Basin markets, Singapore saw stronger increases in the price of kerosene. Colder-than-normal temperatures in Northeast Asia boosted deliveries of the product used as heating fuel, lifting absolute prices and its premium (re-grade) versus gasoil. Gasoline prices on the other hand posted the weakest gains in December despite limited exports from China. Naphtha prices were better supported than gasoline, although increasing offers from India dampened gains.

Average prices of fuel oil were relatively steady in December. Differentials for low sulphur fuel against crude oil prices firmed in the first half of the month before falling back. Increases in low sulphur fuel oil prices followed from higher utility demand. Price gains were more pronounced in the US where high natural gas prices favoured fuel switching into oil, driving a wider wedge between high and low sulphur values. By early January, Singapore offered the most attractive prices across the markets, both for high and low sulphur material.

Spot Product Prices

(monthly and weekly averages, $/bbl)

	Oct	Nov	Dec	Dec-Nov		Week Commencing:					Oct	Nov	Dec
				Change	%	12 Dec	19 Dec	26 Dec	02 Jan	09 Jan			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	70.69	61.10	62.14	1.04	1.7	64.14	59.78	63.19	69.26	68.99	12.08	5.93	5.23
Unleaded	69.11	59.85	61.10	1.25	2.1	63.11	58.81	62.18	68.02	67.72	10.51	4.67	4.19
Naphtha	60.21	52.71	54.86	2.15	4.1	56.58	54.11	56.33	62.30	61.38	1.61	-2.46	-2.04
Jet/Kerosene	81.49	69.69	70.19	0.50	0.7	72.16	69.57	69.22	73.91	72.91	22.89	14.51	13.28
Gasoil .2%	78.28	67.64	67.78	0.14	0.2	69.64	66.82	67.08	71.86	69.83	19.68	12.46	10.87
LSFO 1%	48.81	43.68	43.41	-0.27	-0.6	45.11	43.40	40.96	46.45	44.74	-9.80	-11.49	-13.50
HSFO 3.5%	41.68	39.10	39.14	0.04	0.1	39.09	37.56	38.99	42.31	42.49	-16.92	-16.07	-17.77
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm *	67.77	57.79	60.71	2.92	5.0	62.67	58.48	61.28	68.29	68.13	12.13	5.65	6.18
Naphtha	58.03	50.85	53.34	2.49	4.9	55.36	52.04	53.80	59.35	58.23	2.39	-1.29	-1.19
Jet Aviation fuel	79.23	68.25	68.51	0.26	0.4	71.19	67.98	66.48	71.71	70.46	23.59	16.12	13.98
Gasoil .2%	76.34	66.44	68.16	1.73	2.6	70.46	66.86	66.16	71.60	69.90	20.70	14.30	13.63
LSFO 1%	47.19	43.57	45.27	1.69	3.9	46.07	45.54	44.66	47.90	47.12	-8.45	-8.56	-9.26
HSFO 3.5%	40.82	37.09	36.51	-0.58	-1.6	36.51	35.40	36.12	38.28	39.14	-14.81	-15.05	-18.02
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	83.29	68.86	72.35	3.48	5.1	73.99	70.16	74.10	82.96	78.66	21.01	10.59	12.94
Unleaded	71.83	61.88	67.19	5.31	8.6	68.95	65.36	69.39	75.65	72.19	9.56	3.61	7.78
Jet/Kerosene	90.05	72.61	74.01	1.40	1.9	75.65	74.13	73.61	77.75	74.19	27.77	14.34	14.61
No. 2 (Heating Oil)	79.45	70.86	71.66	0.80	1.1	72.92	71.70	70.66	74.43	71.43	17.18	12.59	12.26
LSFO 1%	50.11	46.17	48.81	2.64	5.7	50.95	49.75	48.38	48.19	45.94	-12.17	-12.10	-10.59
No. 6 3%	43.42	37.54	41.22	3.68	9.8	43.10	41.20	40.03	42.97	43.25	-18.86	-20.73	-18.19
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	69.10	60.87	61.01	0.14	0.2	63.15	60.72	60.93	66.95	66.16	15.14	9.49	7.81
Naphtha	57.80	53.19	53.78	0.59	1.1	55.55	52.80	53.43	56.91	58.29	3.84	1.80	0.58
Jet/Kerosene	75.71	64.78	70.37	5.59	8.6	72.04	72.42	70.74	75.68	76.39	21.75	13.40	17.17
Gasoil .5%	72.62	61.80	63.82	2.02	3.3	64.83	65.09	65.28	69.15	68.62	18.66	10.41	10.62
LSWR Cracked	50.55	45.96	47.81	1.86	4.0	49.35	47.13	47.50	51.18	52.63	-3.41	-5.43	-5.38
HSFO 180 CST	47.96	45.40	44.74	-0.66	-1.5	44.65	43.74	43.84	45.29	46.37	-6.00	-5.98	-8.46
HSFO 380 CST 4%	47.99	44.98	44.53	-0.45	-1.0	44.10	43.46	43.99	45.65	46.14	-5.97	-6.41	-8.67

* From January 2005 Premium Unleaded 50 ppm

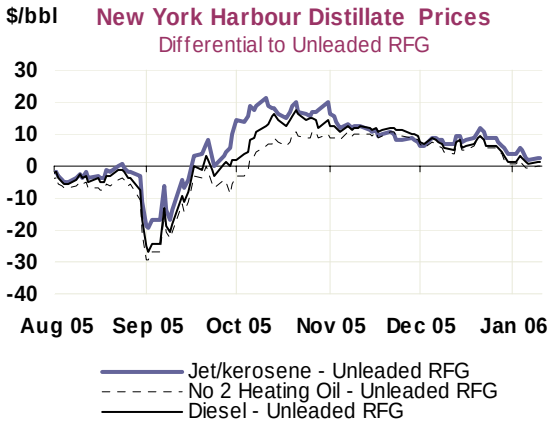
The Americas

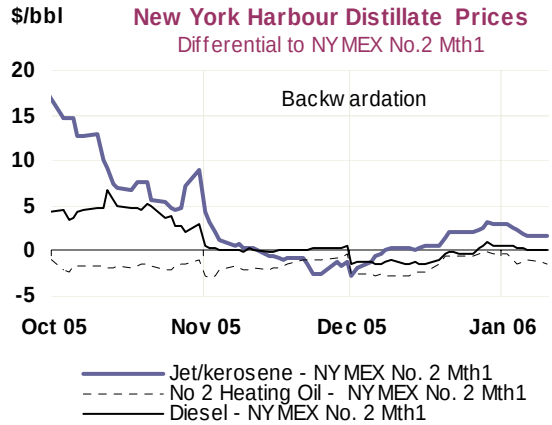
Unleaded gasoline prices led a rise in December US product prices. Gasoline in New York Harbour and on the Gulf Coast climbed on average by 8%. Increases on the West Coast lagged behind with prices for unleaded and premium gasoline in Los Angeles increasing by less than 3%. Higher prices followed strong US refinery delivery figures (a proxy for demand) and an absence of a seasonal build in inventories. The strength in New York Harbour also came with localised tightness in the Northeast area where gasoline production and imports fell and inventories closed below their five-year range.

Physical prices for unleaded reformulated gasoline (RFG) narrowed against the futures contract. The relative tightening of physical prices to futures prices was more pronounced in New York Harbour, where the contract is delivered, than on the Gulf Coast. The near month contango in futures strengthened seasonally in December with higher forward prices signalling the need to rebuild inventories. Though Northeast RFG inventories rose, concerns over summer supply availabilities emerged. These were related to the phasing out of MTBE (an octane enhancer) this year from RFG. MTBE can be replaced with ethanol. However, the switch involves, among other issues, volume losses in production, and may require higher prices to attract additional imports in a period of scheduled refinery maintenance in the first quarter.

Increases in heating oil and diesel prices were lower than those seen for gasoline, with heating oil gaining on average over 1% in December in New York Harbour. Jet/kerosene fared a little better, rising by close to 2%. Despite the arrival of colder temperatures, supply side factors continued to be the dominant factor. The latest weekly US data shows a rise of 4.9 mb in combined heating oil and

diesel stocks. Imports of heating oil and diesel reached 620 kb/d, keeping inventories above average seasonal levels. Heating oil tends to be priced above gasoline heading into the winter months. Since early December, premiums versus gasoline have been weakening. These narrowed markedly in the second half of the month and into early January, with diesel falling to parity with gasoline by end-December. Among middle distillates, jet fuel did strengthen however, moving into a premium to the NYMEX front month heating oil contract. The move followed a seasonal uptick in demand in relation to holiday travel but also from incremental blending of kerosene to upgrade imported gasoil to US market specifications.





Diesel production reached record levels in early January, exceeding last year's highs despite an only gradual return of refinery activity on the Gulf Coast following Hurricanes Katrina and Rita. While average monthly prices on the Gulf Coast were up 2% for pipeline diesel, they actually weakened in New York Harbour and held broadly level in Los Angeles. The change in the maximum sulphur content for diesel this year does not yet appear to be a bullish factor. The specification will fall to 15 ppm in the fourth quarter this year. However, this implies significantly lower sulphur content at the refinery gate to meet specifications at the retail level.

Expensive natural gas prices and colder temperatures in the US also supported firm low sulphur fuel oil prices, with fuel switching evident by power utilities. The US saw a price increase in low sulphur fuel oil centred in the Northeast where the premium of 1% LSFO widened relative to 3% material in New York Harbour. In contrast, the Gulf Coast saw average prices for low sulphur material declining in December. Supplies in the area were relatively ample given a gradual return of a key blending facility in the Caribbean where operations were affected by the recent hurricanes.

Europe

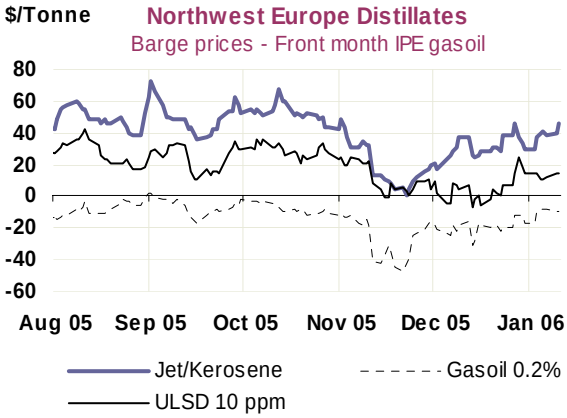
Product price trends on an average monthly basis in Europe followed along the same lines as those in New York harbour. Increases in the monthly average price for gasoline outperformed distillates and lifted naphtha prices higher, particularly in the Mediterranean. Though demand appeared to contract on a yearly basis, and refinery output was higher, European prices drew support from arbitrage opportunities. Deliveries of product were reported to Nigeria as well as Iran. Spot arbitrage sales to the US continued to be sustained by higher NYMEX futures prices and a widening contango for the contract. In early January, some 20 cargoes of gasoline were reported fixed for transatlantic delivery. European gasoline prices were also boosted in mid-December by incremental refinery buying following a fire at a UK fuel depot due secondary logistical constraints.

Gasoil markets in Northwest Europe were relatively weak in spite of the arrival of normal winter temperatures and the crack spread for IPE gasoil relative to Brent weakened to $10/bbl by the end of December. Average prices in December for 0.2% gasoil ended broadly level from November in Northwest Europe, declining in the second half of the month before picking up again in January.

While the Amsterdam Rotterdam Antwerp area saw import demand increase in France, Germany and the UK, physical gasoil prices relative to front month IPE futures remained at a discount. The relative weakness in physical prices stemmed from incremental local demand satisfied by increased refinery output and a continuation of end-user reliance on tertiary inventories to meet heating oil demand. Imports of gasoil in Europe were heavy, forcing a discounting of prompt material as storage availability tightened. Prices for Russian gasoil against futures fared better than 0.2% gasoil in ARA

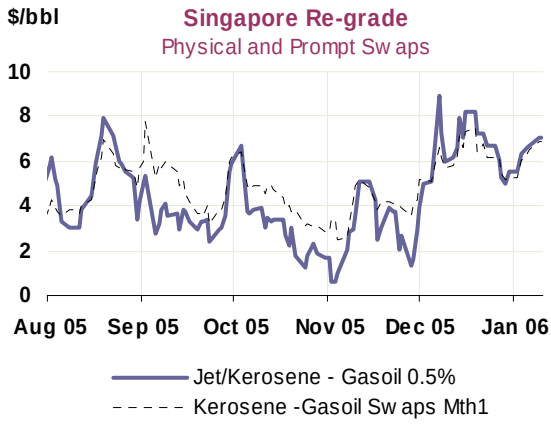
with some product skipping Europe to head to the US. However, material sourced from Asia, notably India, Japan and Korea weighed on prices. In contrast to heating oil, premiums of diesel and jet fuel against IPE gasoil improved in December. Diesel prices in ARA were lifted by demand into the French and Spanish markets. Jet fuel rose with the possible diversion of Middle Eastern material (originally destined for Europe) to the US and competition for Arab Gulf supplies from a firm Asian market.

European fuel oil prices were the weakest across markets surveyed. Though prices were up with higher crude prices in the first half of the month, they quickly retreated. High refinery utilisation rates and imports from the Baltics lifted supplies of high sulphur material. The weight of Russian supplies in ARA was apparent in the widening discount of cargo prices relative to barges prices through December. In the Mediterranean, low sulphur fuel oil rose on average in December in contrast to Northwest Europe. Higher utility demand and transatlantic arbitrage opportunities opened with the arrival of colder temperatures the Northeast US.



Singapore

Product price trends in Singapore saw comparatively stronger distillate price gains than for gasoline. While average gasoline prices on the month held flat, jet/kerosene prices rose in December by over $5/bbl, or close to 9%. A main driver behind higher kerosene prices was colder-than-normal temperatures in Northeast Asia lifting heating demand. In response to higher demand, the premium of jet/kerosene over gasoil, or the re-grade value, widened dramatically. At the time of writing, paper prices in Singapore for January and February delivery were roughly even, suggesting a balanced market following increased refinery output. This was reflected in part by rising distillate inventories in Singapore storage and moderating physical prices in the second week of January.



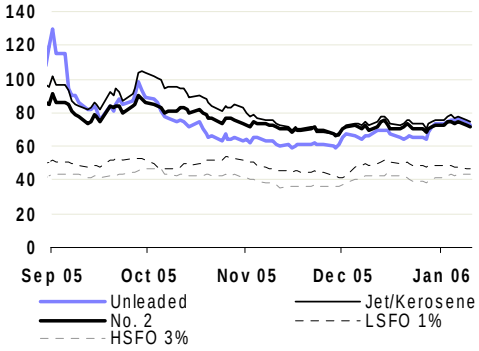
Colder temperatures also led to heightened interest by power utilities for fuel oil. Low sulphur waxy residue saw its price rise in December by an average 4%, the increase also driven by reportedly lower exports of low sulphur material from Korea. High sulphur fuel oil prices rose strongly in the second half of December and into January, making Singapore the highest priced market surveyed in this report. This increase opened arbitrage opportunities for western fuel oil, with fresh bookings of VLCCs from Europe to Asia reported in the first half of January. However, the anticipated influx of imported material pushed prompt prices to a discount. Trade estimates at end-December put late January/early February arrivals at close to 2.8 million tonnes, or the highest monthly volumes since October 2004.

End-User Product Prices in October

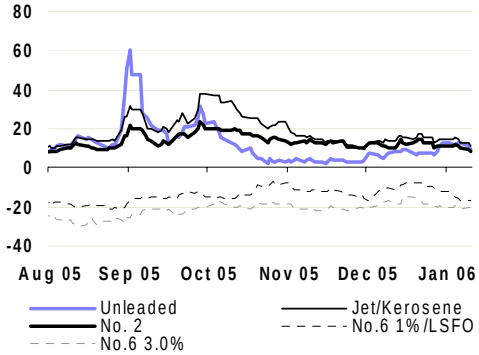
Average petroleum product prices for US consumers dropped substantially in December. Excluding tax, December gasoline prices were 8.4% below November prices, and automotive diesel prices fell by 10.1% at the pump, to 53 cents per litre. Decreases in the end-user prices of both of these products were experienced by most major consuming countries. Notably, UK consumers paid 9.8% less for gasoline in December and saw an 8.4% reduction in automotive diesel pump prices, in dollar-terms, before tax. The only December increase in gasoline prices in the survey was observed in Canada, where the average dollar-based, ex-tax price rose by 3% to 51 cents per litre. According to data available from major consumers, prices for domestic heating oil also fell in December, except in the UK. The European industry sector generally paid less for Low Sulphur Fuel Oil in December but is still paying between 40 and 60%more than one year ago in dollar-based prices.

Product Prices and Differentials to Benchmark Crude Oil Prices

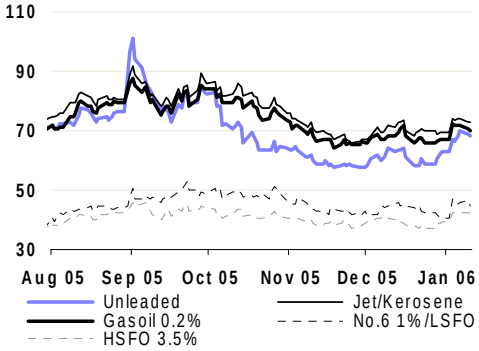
$/bbl **New York Harbour Spot Product Prices** (Fob Barges)



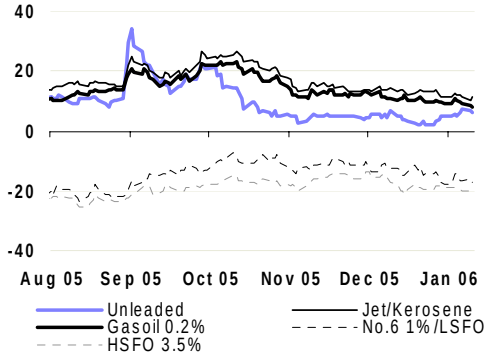
$/bbl **New York Harbour Product Spreads to** WTI (Fob Barges)



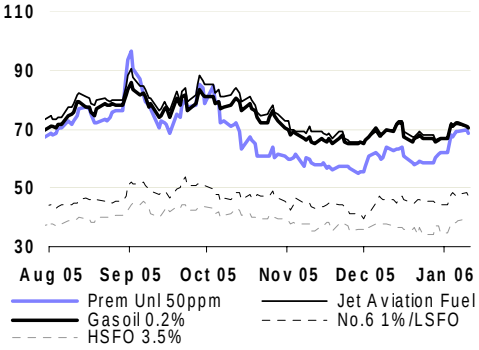
$/bbl **Northwest Europe Spot Product Prices** (Fob Barges)



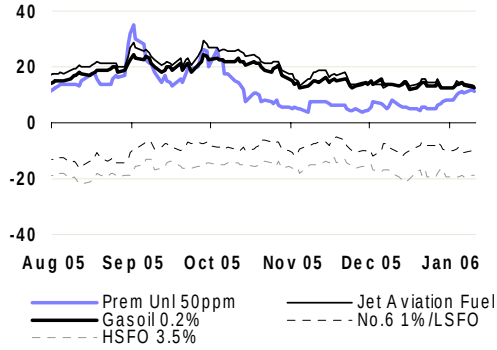
$/bbl **Northwest Europe Product Spreads to** Brent (Fob Barges)



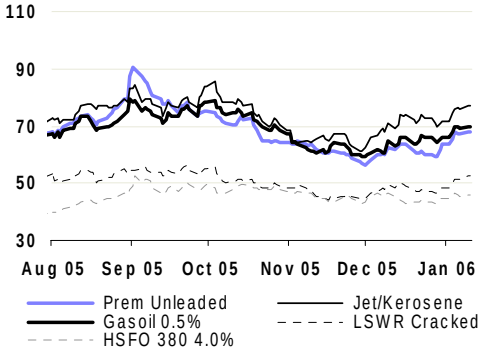
$/bbl **Mediterranean Spot Product Prices (Fob Cargoes)**



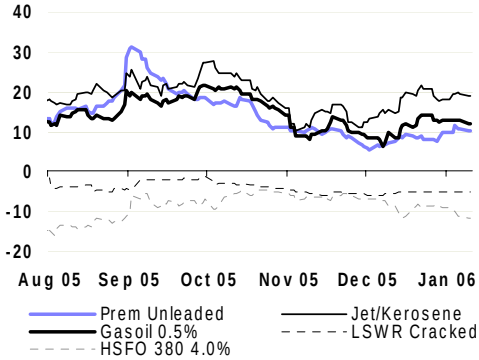
$/bbl **Mediterranean Product Spreads to Urals (Fob Cargoes)**



$/bbl **Singapore Spot Product Prices** (Fob)



$/bbl **Singapore Product Spreads to Dubai** (Fob)



Freight

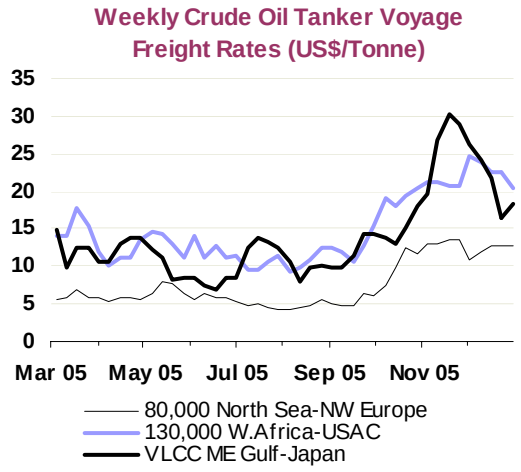
The cost of shipping clean products such as gasoline and heating oil increased significantly in the second half of December, as colder temperatures in the US, Europe and Japan drove product demand upwards. Record snowfall in Japan pushed up demand for heating fuel, specifically kerosene. Japanese refiners responded by running operations near full capacity and importers turned to the spot market to supplement domestic needs. Shipping demand was strong for all product carriers, with rates for 55,000 tonne naphtha shipments from the Arabian Gulf to Japan rising by over 40% in December (although still below November highs). Vessels suitable for naphtha shipments were booked up by the first week of January.

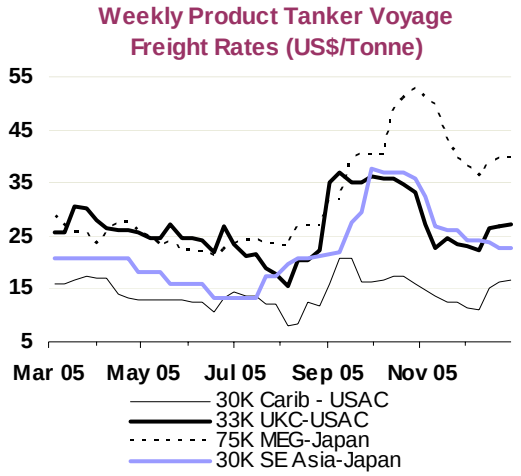
Transatlantic clean tanker booking activity was stirred by the mid-month opening of arbitrage opportunities from North Europe and the Baltic to the US. This was prompted by product price increases in the States following the onset of colder weather. Higher European product demand also supported incoming transport costs, particularly to Northern Europe, where clean product tanker rates from the Mediterranean rose by almost 100% to over $4/bbl for 200,000 barrel cargoes.

Weakening tanker fundamentals maintained downward pressure on the cost of shipping crude and dirty product from the Arabian Gulf throughout December. Despite the onset of winter temperatures driving up Western oil demand, more vessels than usual were available in the region, as OPEC liftings eased in December. Asian customers held back from booking Gulf-loading vessels in December and there was no sign of an anticipated rebound in vessel bookings before the Lunar New Year holiday season. Arabian Gulf to Japan VLCC fixture rates fell from around W200 on Dec 1st to around W100 on Jan 6th and corresponding rates to the US Gulf fell from W150 to W90 over the same period.

In the early part of December, Asian charterers exploited price differentials to bid for light, sweet West African crude for January loading. The narrowing of the BFO-Dubai spread and continued high differentials of low-sulphur regional crudes increased the attractiveness of cheaper distillate-heavy West African grades to Asian refiners. Eastbound West Africa VLCC rates remained just 10 worldscale points below November peaks of W150 for the whole second half of December before dropping in January. West African crude, popular with US refiners, found mixed success as interest for foreign grades waned. The LOOP terminal authorities indicated tightening storage capacity for light, sweet crude in early December as a result of large import volumes. From mid-December onwards, trends in differentials of WTI and Dubai relative to Brent limited arbitrage movements.

Vessel transit times through the Bosporus Straits reached 24 days for a round trip in December. Transport costs for million-barrel and half-million-barrel vessels trading in the region reached 11-month highs ($3/bbl for million-barrel Black Sea to Med cargoes) as these delays restricted vessel availability in the area. Elsewhere, costs for shipping million-barrel cargoes out of the Arabian Gulf dropped dramatically from the middle of December onwards, following the downward trend in the VLCC sector.





REFINERY ACTIVITY

Summary

- **Full cost refining margins** were weaker on average in December than November, with the exception of the US Gulf Coast and China. Cracking margins remained healthy in the Atlantic Basin, helped by stronger gasoline cracks on the US Gulf Coast. However, European hydroskimming margins moved further into negative territory on weaker distillate and fuel oil cracks. Asian margins, though helped by colder weather in the region, saw weaker gasoline cracks offset the increase in kerosene and heating oil values.

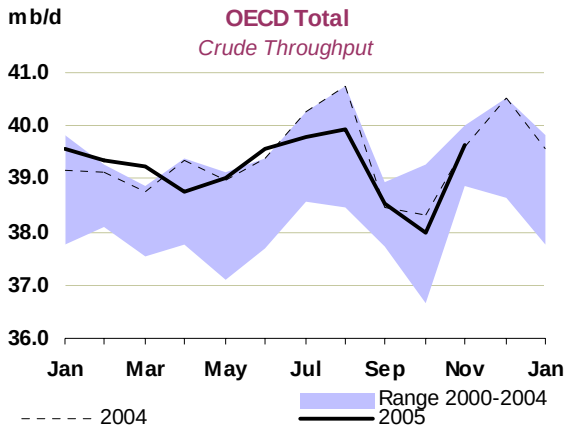
- **US refining margins** recovered on the Gulf Coast from the unusually low levels in November. Stronger gasoline deliveries bolstered gasoline cracks over the month, margins on Mars and LLS rising on average by $2.50/bbl and $1.82/bbl respectively. West Coast margins, though slightly weaker on average than in November, rose steadily, following the very weak levels seen in late November and early December.

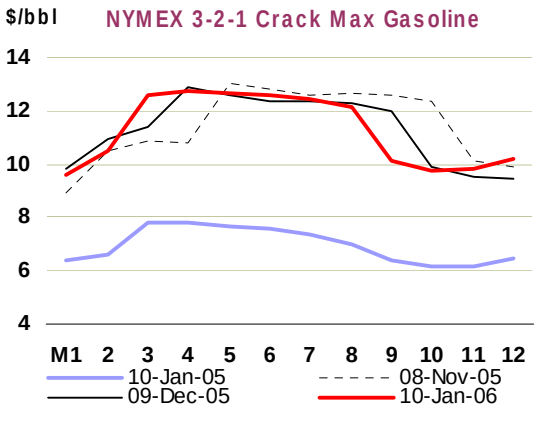
- **European refining margins** were weaker on the back of falling distillate and fuel oil cracks, with only limited support seen from higher US gasoline values. Brent cracking slipped by $0.84/bbl in Northwest Europe while Urals declined $1.09/bbl in the Mediterranean. Hydroskimming margins moved further into negative territory.

- **Asian refining margins** were weaker in Singapore, pressured by imports, high inventories and weak demand in early December. The margin on Dubai cracking bucked this trend, rising on average by $0.39/bbl over the month. Gasoline and fuel oil cracks lost value compared to November and only kerosene saw a material increase. Margins in China recovered slightly from November's low levels.

- **OECD throughput** reached 39.6 mb/d in November, an increase of 1.7 mb/d from October's levels and on a par with November 2004. This throughput represents the highest level of November refinery runs since 2000, indicative that the strong margin environment of October was sufficient to prompt incremental crude runs, compensating for the 1.2 mb/d of US capacity offline during the month.

- **The front month 3-2-1 NYMEX crack spread** remained relatively steady between November to January and much higher than last year. Though heating oil futures unseasonably weakened relative to WTI, strength in gasoline supported the proxy refining margin around $10/bbl in the prompt month and pushed the margin above $12/bbl for summer delivery.





Refining Margins

Refining margins remained under pressure in early December as high stock levels undermined prompt product prices. Margins progressively responded to the arrival of colder weather, initially in the US, and latterly in Europe and Asia. In the Atlantic Basin, higher gasoline differentials to crude on the US Gulf Coast supported cracking margins, but Europe saw limited benefits due to weak gasoline demand and relatively stronger crude prices. In addition, lower distillate cracks had proportionately higher impact on European margins due to their structurally higher distillate yield.

Nevertheless Europe and Singapore continued to enjoy positive cracking margins despite, on average, a weaker distillate price environment. Asian margins struggled to benefit from the colder weather which boosted kerosene cracks. Average Asian gasoline and naphtha spreads relative to crude were negative while differentials of gasoil responded with a lag compared to those of jet/kerosene. Margins on cracking light sweet crude such as Tapis went further negative. This resulted from strengthening prices for light sweet crude grades in Asia. These rose relative to medium sour grades, supported by a closed arbitrage from competing West African supplies. Premium unleaded values relative to Tapis fell on average by $3.67/bbl compared to $1.79/bbl for Dubai in December. Generally, both Asian and European margins were pressured by high prompt supplies, notably for gasoil. Despite efforts to find alternative export markets, product prices in distillates were generally discounted relative to forward prices on paper markets.

In late December and early January margins continued to strengthen in Europe, on the back of rising product prices as highlighted earlier in this report. However, Asian margins saw renewed weakness at the start of January, due to warmer weather dampening heating oil demand. The US Gulf Coast saw margins retreat across configurations, with the exception of Maya coking, the trend mainly supported by a sharper rise in crude prices relative to products.

Selected Refining Margins in Major Refining Centres

($/bbl)

		Monthly Average			Change	Week Ending:				
		Oct 05	Nov 05	Dec 05	Dec 05-Nov 05	09 Dec	16 Dec	23 Dec	30 Dec	06 Jan
NW Europe	Brent (Cracking)	9.30	3.20	2.36	-0.84	3.29	1.75	1.72	2.22	3.06
	Urals (Cracking)	11.38	5.76	4.71	-1.06	4.30	4.31	5.37	6.06	6.11
	Brent (Hydroskimming)	4.55	-0.32	-1.17	-0.86	-0.58	-1.73	-1.48	-1.88	-1.84
	Urals (Hydroskimming)	3.79	-0.03	-1.49	-1.46	-2.10	-2.26	-0.85	-0.80	-1.41
Mediterranean	Es Sider (Cracking)	8.51	2.25	1.85	-0.40	2.08	0.71	1.98	2.87	4.85
	Urals (Cracking)	10.14	4.21	3.12	-1.09	3.15	1.84	3.23	4.03	5.38
	Es Sider (Hydroskimming)	3.27	-1.53	-2.10	-0.58	-2.34	-3.14	-1.40	-1.58	-0.32
	Urals (Hydroskimming)	2.46	-1.86	-3.76	-1.90	-3.99	-5.10	-3.70	-3.57	-2.89
US Gulf Coast	Brent (Cracking)	10.58	-1.82	-1.31	0.51	-1.75	-3.02	-1.33	2.03	-0.08
	LLS (Cracking)	13.56	0.52	2.33	1.82	2.45	2.11	3.30	5.05	3.42
	Mars (Cracking)	7.97	-0.66	1.84	2.50	1.65	2.16	3.26	4.40	1.97
	Mars (Coking)	17.97	5.44	7.76	2.32	7.95	8.36	8.74	10.17	8.44
	Maya (Coking)	20.08	9.93	12.07	2.15	12.34	12.03	12.29	15.33	15.32
US West Coast	ANS (Cracking)	6.39	0.34	-0.36	-0.70	-2.62	0.71	2.61	4.87	4.08
	Kern (Cracking)	5.77	2.34	2.67	0.33	-0.25	1.91	5.46	6.49	6.24
	Oman (Cracking)	7.76	-1.42	-1.92	-0.50	-6.13	-3.07	1.55	4.32	4.33
	Kern (Coking)	14.09	7.27	6.07	-1.20	1.68	4.54	10.76	16.05	16.62
Singapore	Dubai (Hydroskimming)	2.46	-2.06	-2.15	-0.09	-3.08	-2.33	-0.29	-1.15	-1.66
	Tapis (Hydroskimming)	-0.57	-4.86	-6.62	-1.75	-7.57	-6.24	-5.85	-6.52	-6.86
	Dubai (Hydrocracking)	6.63	0.82	1.21	0.39	0.05	1.89	3.46	2.73	2.80
	Tapis (Hydrocracking)	2.33	-2.66	-4.28	-1.62	-5.40	-3.64	-3.17	-3.89	-4.12
China	Cabinda (Hydroskimming)	-0.01	-4.57	-3.27	1.29	-3.47	-1.72	-1.73	-2.18	-3.73
	Daqing (Hydroskimming)	-2.27	-3.87	-2.95	0.92	-3.30	-2.28	-2.57	-2.81	-4.96
	Dubai (Hydroskimming)	2.31	-2.69	-2.57	0.12	-3.60	-2.70	-0.51	-1.37	-1.75
	Daqing (Hydrocracking)	2.48	0.00	1.07	1.08	0.57	2.20	1.62	1.63	-0.15
	Dubai (Hydrocracking)	6.47	0.14	0.77	0.63	-0.47	1.51	3.21	2.49	2.75

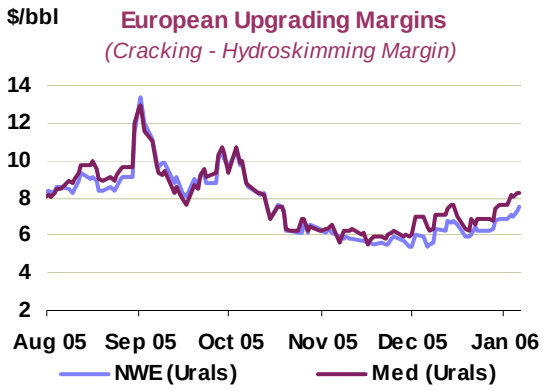
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimized for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability 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.

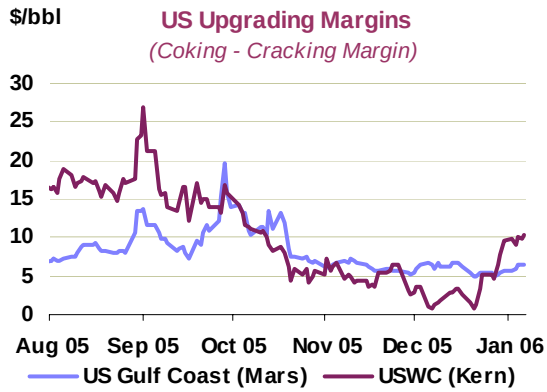
*The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations.

Sources: IEA, Purvin & Gertz Inc.

US Gulf Coast margins on domestic sweet and medium sour crude grades rebounded from November's low but remain weaker than the 2005 average. Stronger gasoline cracks boosted margins as the market reacted to the stronger-than-expected deliveries of gasoline. Mars led gains in cracking margins with a strong recovery of high sulphur fuel oil prices. However cracking domestic light sweet crudes provided a higher average return. Gains in LLS margins were capped by relative strength in the crude as refiners turned to domestic crude grades in view of a closed transatlantic arbitrage. As such, cracking Brent on the Gulf Coast was penalised by costs associated with freight and improving differentials relative to WTI.

On the West Coast, margins for Kern were on average stronger than other crude grades. Kern cracking, as seen for Mars, improved on firming gasoline and high sulphur fuel oil values. However, gains for gasoline on the West Coast relative to crude exceeded those on the Gulf Coast over the second half of the month, leading to a divergence in upgrading margins of heavy crudes.





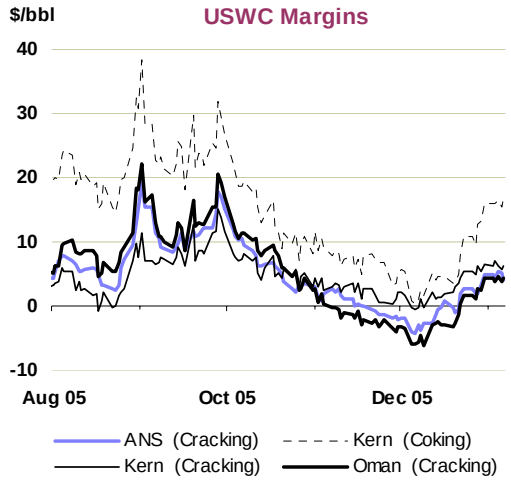
European light sweet cracking margins, having held up well in November, weakened in December, with distillate prices under pressure from imported gasoil supplies. However, declines in margins for sweet crude were generally less than those on sour crude due to firming LSFO prices. In particular, the second half of the month saw increased demand from power utilities with the arrival of colder weather. Mediterranean Urals margins in the early part of December were also pressured by the tightness of the local sour crude market. Delays in the Turkish straits restricted Urals supplies while ongoing outages of Iraqi Kirkuk loading from Ceyhan, initially supported sour crude prices relative to Brent.

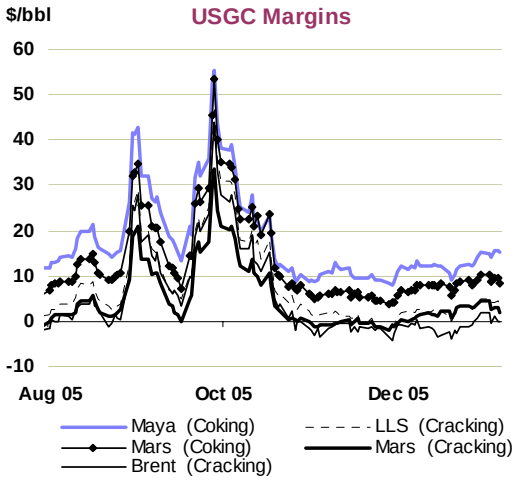
North West European and Mediterranean hydroskimming margins retreated further into negative territory over the month. Only hydroskimming refiners who locked in their economics when forward margins were stronger were likely to maintain high crude runs in December.

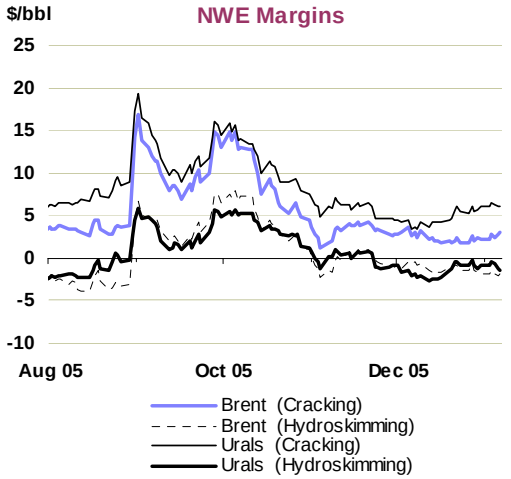
Average upgrading margins saw divergent trends between light sweet and medium sour crude grades. Upgrading margins on Brent fell over the month with relative strength of crude and stronger low sulphur fuel oil prices. In contrast, upgrading margins for Urals proved more profitable, both in the Mediterranean and Northwest Europe. However they drifted over December as Urals weakened against Brent and the price for high sulphur fuel remained relatively depressed on ample regional supplies and high refinery throughputs.

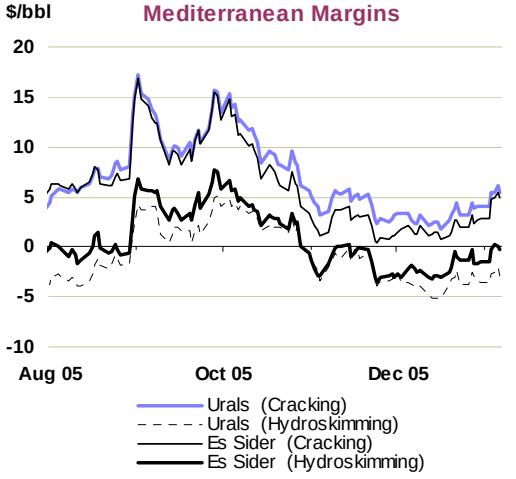
Asia Pacific average margins showed little improvement in Singapore with the exception of Dubai hydrocracking, which managed a small increase compared to November. Upgrading margins for Dubai improved significantly with the relative weakness in high sulphur fuel oil prices. These remained relatively depressed on incoming arbitrage material from the West despite a reportedly strong rebound of Chinese imports in December ahead of the Lunar New Year holiday. Hydroskimming margins remained weak, particularly for Tapis, given its strength compared to other regional light sweet crude grades. Even though the arrival of cold weather in north eastern Asia boosted demand for LSWR and kerosene, the impact on Tapis margins was negligible as crack spreads actually deteriorated in December.

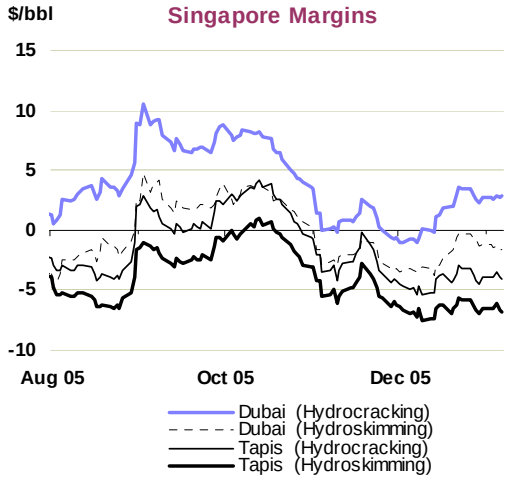
Regional Full-Cost Refining Margins

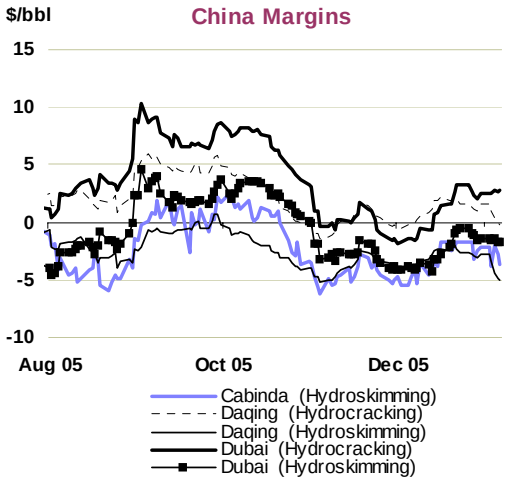












Refinery Throughput

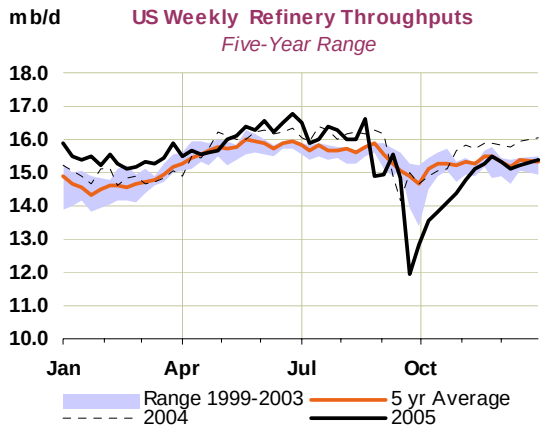
OECD throughputs continued to recover, rising to 39.6 mb/d, their highest November level in the last five years. The increase in crude runs followed the gradual return of US refiners from hurricane-related disruptions in September and October. OECD throughputs averaged 1.7 mb/d higher than in October and about par with the level observed in November 2004. Positive simple margins in October and part of November appear to have sustained the use of incremental crude distillation capacity in Europe and the Pacific, offsetting lower year-on-year runs in the US. North American refinery runs in November were 17.9 mb/d or 722 kb/d lower year-on-year while European runs achieved 14.3 mb/d, an annual increase of 660 kb/d. In the Pacific, throughputs increased in line with seasonal patterns ahead of their first quarter peak, averaging 7.5 mb/d or 69 kb/d above November 2004. Though most refiners on the Gulf Coast had resumed normal operations by December, three refiners still remained offline into the New Year.

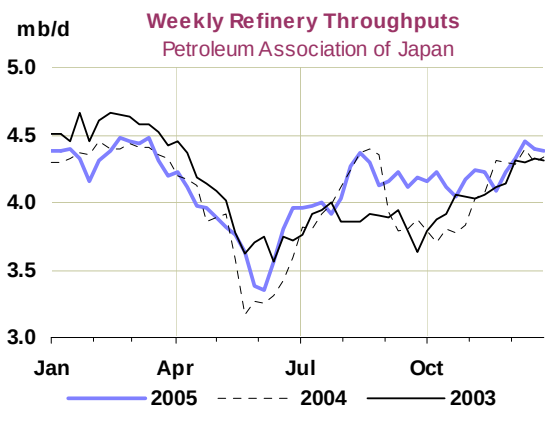
Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*	*Nov 04*	Utilisation rate[2]	
	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	mb/d	%	Nov 05	Nov 04
OECD North America										
US[3]	16.40	15.91	15.62	13.97	13.65	14.90	-0.77	-4.9	87.39	92.57
Canada	1.79	1.79	1.79	1.75	1.75	1.78	0.03	1.5	88.17	88.13
Mexico	1.27	1.23	1.28	1.28	1.18	1.18	0.02	1.7	70.11	71.96
Total	19.46	18.93	18.70	17.01	16.58	17.86	-0.72	-3.9	86.07	90.21
OECD Europe										
France	1.62	1.76	1.78	1.75	1.57	1.86	0.15	9.0	95.43	87.54
Germany	2.30	2.30	2.43	2.44	2.37	2.39	0.16	7.0	97.57	91.16
Italy	1.90	1.93	1.91	2.02	2.05	1.96	0.22	12.7	84.56	75.28
Netherlands	1.09	0.95	1.04	1.07	1.02	1.06	0.13	14.2	86.70	76.28
Spain	1.11	1.26	1.20	1.23	1.29	1.24	0.01	0.9	97.18	96.30
UK	1.59	1.75	1.69	1.71	1.71	1.64	-0.12	-6.8	89.92	96.90
Other OECD Europe	3.95	4.03	4.20	4.02	4.23	4.16	0.10	2.5	89.07	86.81
Total	13.57	13.96	14.25	14.26	14.24	14.32	0.66	4.8	91.09	87.00
OECD Pacific										
Japan	3.69	3.96	4.17	4.17	4.08	4.24	0.08	2.0	90.09	88.41
Korea	2.12	2.25	2.16	2.35	2.39	2.52	0.05	2.1	97.68	96.89
Other OECD Pacific	0.72	0.70	0.67	0.73	0.69	0.69	-0.07	-8.6	80.29	87.83
Total	6.53	6.91	7.00	7.25	7.16	7.45	0.07	0.9	91.46	91.01
OECD Total	39.55	39.80	39.95	38.52	37.97	39.63	0.01	0.0	88.82	89.22

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

Capacity utilisation for North America averaged 86.1% in November, 4.1% below November 2004's level and is the result of hurricane-related disruption to US Gulf Coast activities. US throughputs declined by 768 kb/d year-on-year due to a combination of an estimated 1.18 mb/d of offline capacity on the US Gulf Coast and higher runs of around 400 kb/d elsewhere in the US. In contrast to the observed rise in runs in Europe and the Pacific, increases in Canada and Mexico proved comparatively modest.



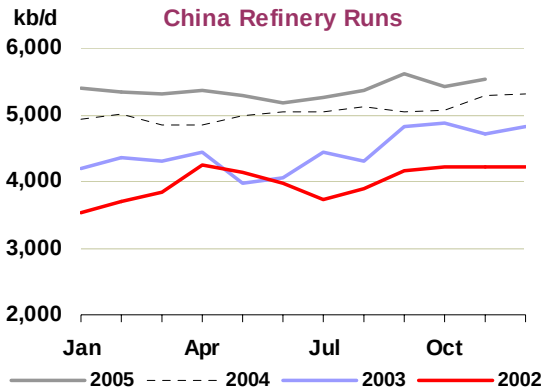


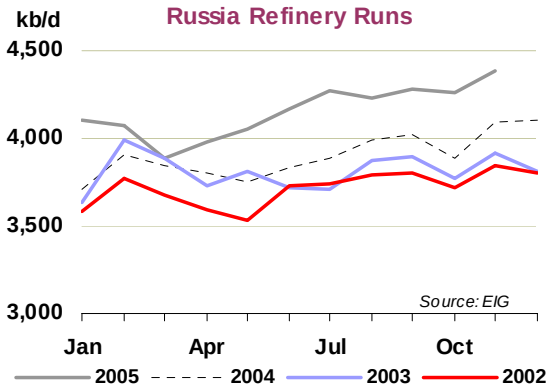
The return to service of refineries on the Gulf Coast increased US throughputs by 1.25 mb/d from October's level, which itself is revised up by 153 kb/d from last month's estimate. Adjusting for capacity offline in November 2005 would suggest that US refineries ran at 94% of available capacity during the month, compared to 93% for November 2004 on a comparable basis. Offline US capacity fell to 800 kb/d in December with three remaining refineries still affected by the hurricanes. These are now expected to restart over the first quarter of this year. However, of the three refineries, the BP Texas City refinery restart may see the longest delay. Operations at the plant are expected to resume in March, with full production possibly as late as June. Pending on successful re-starts, this represents an average of 600 kb/d of capacity offline over the first quarter.

The first quarter 2006 is expected to see US throughput levels reduced by a higher-than-normal turnaround season. The range of estimates by industry analysts varies anywhere from 45% higher than in 2005 down to comparable levels. Alternatively, required maintenance can be viewed in light of completed upgrades. Some estimates suggest that 85% of US refineries have already finished the necessary work to meet tighter specifications effective from 1 June 2006. This in turn suggests that about 2.5 mb/d of capacity still requires maintenance work. Should the bulk of this be scheduled for completion in the first quarter, then maintenance levels could be about 20% higher than year-ago levels. When considered in conjunction with offline capacity, crude runs will need to remain high elsewhere to ensure sufficient product availability.

OECD Europe refinery runs were 14.32 mb/d in November, the highest since the fourth quarter of 1998. Refiners maximised throughputs on the back of October's strong margins, with runs 85 kb/d above October's level, which was itself revised higher by 118 kb/d, (primarily in Italy). At the same time, turnaround activity was about 500 kb/d lower than in November 2004 also helping throughput levels. European capacity utilisation for November was 91.1%, an increase of 4.1% over the previous year. Despite hydroskimming margins turning negative towards the end of the October, runs are not expected to have fallen significantly in December. The ongoing contango in product markets provides the incentive to lock-in profits and maintain throughputs.

November OECD Pacific throughput of 7.45 mb/d is 69 kb/d higher than year-ago levels, and 285 kb/d above October's revised figure of 7.16 mb/d. This level of throughput represents 91.5% capacity utilisation, up from 91% in November 2004. Refiners appear to have minimised refinery maintenance heading into the peak Asian demand season, with 76 kb/d less maintenance activity than year-ago levels and 175 kb/d less than October 2005. Japanese December crude runs tracked seasonal norms, with more extreme cold weather boosting runs above 2004 levels to meet heightened kerosene demand.





From this Report henceforth, selected developments in Non-OECD throughputs will also be monitored. Data for China and Russia indicate both countries' throughputs rose to new highs for the last three years. Increases in Russian throughputs are the result of strong year-on-year increases in product exports driven by favourable tariffs structures relative to crude oil. In China, runs remain significantly above year-ago levels, reflecting in part the country's move towards a lower net import position for 2005 and a greater reliance on domestic refinery output to meet demand. This appears to follow recent policy measures in China (see Demand section).

Impact of the EU Emissions Trading Scheme on European Refineries

The EU emissions trading scheme (EU ETS) is the largest ever cap-and-trade system to control CO_2 emissions from some 11,500 installations – including the refinery sector. At the same time, refiners are being pushed to use more CO_2 intensive processes to meet European environmental product specifications, potentially exacerbating the impact of the CO_2 price on the industry's competitiveness. Further, as, the ETS only applies to EU firms, it exposes the industry to potential competition from other countries without greenhouse gas constraints, a source of concern for industry and policy makers alike.

The carbon constraint may increase the variable costs for European refineries since an emission allowance is needed for each tonne of CO_2 emitted. If allowances were treated as a carbon tax, the cost of CO_2 allowances would not be trivial (see table below). At €10/tCO_2, the CO_2 cost would amount to 15-30% of total running expenses. At €23/tCO_2, the current price of European CO_2 allowances, the cost of carbon would reach about $1 per barrel of crude oil entering the refinery, a substantial part of projected refining margins. In comparison, refinery margins in this study range between $1 and $6/bbl assuming a price of Brent crude at $43/bbl.

Representative Marginal Cost of CO_2 Emissions Per Barrel of Crude Oil Input

		CO_2 emissions	10€/tCO_2	20€/tCO_2	30€/tCO_2
		tCO_2/tcrude	$/bbl		
NWE	1-HSK	0.20	0.34	0.68	1.02
	2- +VB+FCC	0.34	0.56	1.12	1.68
	4- +VB+HCU	0.32	0.54	1.08	1.62
	5- +DC+HCU	0.33	0.55	1.10	1.64
	6- +VB+FCC+HCU	0.36	0.61	1.21	1.82
	Average*	**0.33**	**0.55**	**1.10**	**1.64**
Central	1-HSK	0.22	0.37	0.74	1.11
	2- +VB+FCC	0.32	0.55	1.09	1.64
	4- +VB+HCU	0.37	0.62	1.25	1.87
	6- +VB+FCC+HCU	0.36	0.62	1.23	1.85
	Average*	**0.34**	**0.58**	**1.16**	**1.73**
Med	1-HSK	0.21	0.34	0.69	1.03
	2- +VB+FCC	0.33	0.55	1.10	1.65
	4- +VB+HCU	0.33	0.55	1.10	1.65
	5- +DC+HCU	0.33	0.56	1.11	1.67
	6- +VB+FCC+HCU	0.35	0.58	1.17	1.75
	Average*	**0.32**	**0.53**	**1.06**	**1.59**

Source: IEA, Axens
* Represents a weighted average based on the refinery structure in each region

The cost implications of the CO_2 constraint are, in fact, greatly alleviated by the "grandfathered" allocation process: industry is given a fixed quantity of allowances for free and will only purchase allowances from the market if emissions rise above that level. For example, if a refinery had a 10% shortfall in allowances and accounted only for the cash cost of the purchases on the carbon market, the CO_2 cost would amount to 1-3% of running costs.

The cost impact of the EU ETS may be exacerbated for refineries that purchase electricity from the grid, as European electricity prices are rising, partly as a result of the CO_2 constraint faced by power generators. Power generators that rely on fossil fuels now need a CO_2 allowance for every tonne they emit and partly reflect the price of CO_2 allowances in their bids.

But a full pass-through of CO_2 prices into power prices should not be expected. For instance, the renegotiation of the allowances level every three to five years somewhat discourages CO_2 reduction, and, with it, a full pass-through of the CO_2 allowance price. The pricing behaviour of generators has yet to be explored fully, in light of this consideration and of the organisation of power markets in Europe.

Impact of the EU Emissions Trading Scheme on European Refineries (continued)

From the standpoint of international competitiveness, amortising any CO_2 cost should be evaluated in the current pricing environment of strong demand for refinery products in high growth regions (China, Asia, and North America), and with insufficient refinery upgrading capacity. In the near term, the moderate cash cost imposed by the CO_2 cap is unlikely to represent an obstacle to European gasoline exports to foreign markets, especially North America, where demand is strong.

In Europe, imports from non-CO_2 constrained refineries should not increase as a result of the additional cost brought by the CO_2 cap. First, the additional costs that foreign refiners may incur to enter the European market (e.g. clean freight rates, stringent product specifications) probably influences their downstream strategies (i.e. the choice of markets to supply) more than an increase in cost for European producers. For example, investment in desulphurisation (amounting to $2-4/bbl) will be necessary for foreign finished products to be in compliance with European specifications. However, refineries facing significant investment to meet new specifications may also look to changes in feedstock and export patterns to cope with changing environmental regulations.

The global nature of the product market means that the prices of refinery products are generally open to international competition and therefore it may not be possible for European refiners to offset costs with higher prices. Nevertheless, trade in all products is not possible in all countries and in several European countries certain products (e.g., kerosene) are supplied almost exclusively by European refineries. In these markets European refineries may have the ability to pass on their CO_2 cost to consumers, triggering increased gross margins (as witnessed in electricity markets). However, although this is likely to apply only to minor product categories, developments in refinery product prices must be monitored to assess the actual cost impact of the EU ETS on the refinery industry.

Based on IEA Information paper 'The European Refinery Under the EU Emissions Trading Scheme: *Competitiveness, Trade Flows and Investment Implications'*. For more details contact Julia Reinaud - Julia.REINAUD@iea.org

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	25.5	25.5	25.7	25.6	26.1	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	15.5	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	9.6	8.1	8.2	9.0	8.7
Total OECD	48.0	48.6	50.2	48.1	49.2	50.5	49.5	50.6	48.7	49.3	50.3	49.7	50.8	49.0	50.0	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	3.6	3.9	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	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	8.6	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	34.2	33.6	34.6	34.5	34.8	35.6	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	84.4	83.3	85.4	83.5	84.7	86.9	85.1
OECD SUPPLY																	
North America	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.6	13.7	13.6	14.1	14.3	14.3	14.2	14.3	14.3
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.7	5.4	5.6	5.7	5.7	5.4	5.1	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	0.5	0.6	0.6	0.5	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	19.7	20.3	20.6	20.3	19.9	20.3	20.3
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	12.1	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	2.7	2.8	2.7	2.7	2.7	2.8	2.8	2.7	2.8	2.8	2.8	2.8	2.8
Latin America	3.9	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.3	4.3	4.3	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	28.5	28.0	28.8	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	50.4	49.7	50.1	50.1	51.3	51.3	51.1	51.9	51.4
OPEC																	
Crude[4]	25.1	26.8	27.9	28.0	29.1	29.5	28.6	28.7	29.3	29.5	29.4	29.2					
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	33.4	34.0	34.3	34.2	34.0					
Total Supply[5]	76.9	79.7	82.3	82.5	83.3	84.2	83.0	83.7	84.4	84.0	84.3	84.1					
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	0.3							
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	0.3							
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	0.8	0.7	0.1	0.6	0.1	1.2	0.9							
Total Stock Ch. & Misc	-0.8	0.5	0.0	1.6	1.4	0.3	0.8	-0.3	2.5	1.1	-0.1	0.8					
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	29.5	28.4	29.1	27.2	28.4	29.7	28.6
Total Demand ex. FSU	74.2	75.6	78.7	77.1	78.0	79.9	78.5	80.3	78.3	79.2	80.6	79.6	81.6	79.8	81.0	82.9	81.3
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	0.8	1.4	1.6	1.9	2.2	2.9	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 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	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	0.1	-	0.1	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-0.2	-	-	-	-	-0.1	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-0.3	-0.1	-	-	-	-0.1	-
Total Demand	-	-	-	-	-	-	-	-	-	-	-0.4	-0.1	-	-	-	-0.2	-
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.2	-0.1	-	-	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-0.2	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-	-
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-0.3	-0.1	-0.3	-0.2	-0.1	-0.1	-0.2
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-							
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-	-							
Total Supply	-	-	-	-	-	-	-	-	-	-							
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-	0.3							
Government	-	-	-	-	-	-	-	-	-	-							
Total	-	-	-	-	-	-	-	-	-	0.3							
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-	-							
Miscellaneous to balance	-	-	-	-	-	-	-	-	-	-0.3							
Total Stock Ch. & Misc	-	-	-	-	-	-	-	-	-	-							
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-	-	-	-	-	-	-	-	-	-	0.3	0.2	0.1	-0.1	0.1
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-	-	-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	25.30	25.50	25.53	25.47	25.72	25.64	26.08	26.34	25.95
Europe	15.43	15.66	15.20	15.60	16.02	15.62	15.56	15.30	15.71	15.87	15.61	15.53	15.26	15.64	15.98	15.60
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.10	8.10	8.86	8.63	9.58	8.11	8.25	9.01	8.73
Total OECD	48.65	50.17	48.13	49.17	50.48	49.49	50.57	48.70	49.31	50.26	49.71	50.83	49.01	49.96	51.33	50.28
FSU	3.59	3.51	3.71	3.78	3.98	3.74	3.73	3.57	3.63	3.86	3.70	3.83	3.67	3.76	4.00	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	6.63	6.90	6.62	6.85	6.87	7.00	7.33	7.01
Other Asia	8.05	8.47	8.57	8.39	8.77	8.55	8.82	8.78	8.61	8.82	8.76	9.00	8.98	8.81	9.14	8.98
Latin America	4.67	4.71	4.87	4.96	4.89	4.86	4.85	5.01	5.06	4.99	4.98	4.96	5.12	5.19	5.11	5.09
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	33.45	32.72	33.48	33.20	33.52	34.17	33.59	34.57	34.48	34.76	35.60	34.85
World	79.21	82.25	80.84	81.82	83.92	82.21	84.05	81.90	82.84	84.43	83.30	85.40	83.49	84.72	86.93	85.14
of which:																
US	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.80*	*20.66*	*20.86*	*20.79*	*20.78*	*20.93*	*20.94*	*21.29*	*21.46*	*21.16*
Euro4	*8.30*	*8.39*	*8.10*	*8.36*	*8.48*	*8.34*	*8.19*	*8.06*	*8.37*	*8.27*	*8.22*	*8.09*	*8.01*	*8.23*	*8.33*	*8.17*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.99*	*5.08*	*5.53*	*5.41*	*6.11*	*4.94*	*5.11*	*5.59*	*5.44*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.00*	*2.24*	*2.17*	*2.39*	*2.09*	*2.05*	*2.31*	*2.21*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.04*	*2.05*	*2.05*	*2.10*	*2.11*	*2.11*	*2.14*	*2.12*
Canada	*2.21*	*2.30*	*2.20*	*2.31*	*2.36*	*2.29*	*2.35*	*2.23*	*2.26*	*2.33*	*2.29*	*2.31*	*2.25*	*2.32*	*2.38*	*2.32*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.11*	*2.17*	*2.24*	*2.20*	*2.18*	*2.15*	*2.21*	*2.29*	*2.25*	*2.23*
India	*2.47*	*2.66*	*2.65*	*2.49*	*2.62*	*2.60*	*2.77*	*2.64*	*2.53*	*2.63*	*2.64*	*2.82*	*2.70*	*2.56*	*2.70*	*2.70*
Annual Change (% per annum)																
North America	1.7	3.1	3.8	2.9	3.5	3.3	1.2	1.1	0.4	-0.6	0.5	0.7	1.3	2.3	3.2	1.9
Europe	1.0	1.4	0.4	0.9	2.3	1.3	-0.7	0.6	0.7	-0.9	-0.1	-0.2	-0.3	-0.5	0.7	0.0
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.5	-0.7	1.0	1.2	1.0	0.1	1.8	1.7	1.1
Total OECD	1.4	1.1	1.7	2.2	1.9	1.7	0.8	1.2	0.3	-0.4	0.4	0.5	0.6	1.3	2.1	1.2
FSU	3.2	-8.4	15.8	10.2	2.3	4.4	6.4	-3.9	-3.9	-3.0	-1.3	2.6	2.9	3.7	3.7	3.2
Europe	3.8	2.5	2.5	3.0	3.1	2.8	2.6	2.6	2.0	1.9	2.3	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	4.5	2.9	4.6	7.2	5.6	6.3	5.9
Other Asia	1.2	6.8	8.9	5.3	4.2	6.2	4.2	2.4	2.6	0.5	2.4	2.0	2.3	2.3	3.6	2.5
Latin America	-1.8	4.8	5.0	3.9	2.8	4.1	3.0	2.9	2.1	2.0	2.5	2.1	2.2	2.4	2.5	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	7.1	4.4	1.5	2.7	2.2	2.7	3.3	3.9	3.7	4.2	3.8
World	2.0	3.0	5.3	3.8	3.2	3.8	2.2	1.3	1.2	0.6	1.3	1.6	1.9	2.3	3.0	2.2
Annual Change (mb/d)																
North America	0.40	0.76	0.93	0.70	0.86	0.81	0.31	0.27	0.09	-0.15	0.13	0.19	0.34	0.58	0.81	0.48
Europe	0.16	0.22	0.05	0.14	0.36	0.20	-0.11	0.10	0.11	-0.15	-0.01	-0.02	-0.04	-0.07	0.11	-0.01
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.20	-0.06	0.08	0.10	0.09	0.00	0.14	0.15	0.10
Total OECD	0.69	0.57	0.79	1.07	0.93	0.84	0.40	0.57	0.14	-0.22	0.22	0.26	0.31	0.65	1.07	0.57
FSU	0.11	-0.32	0.51	0.35	0.09	0.16	0.22	-0.14	-0.15	-0.12	-0.05	0.10	0.10	0.13	0.14	0.12
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	0.31	0.30	0.19	0.30	0.46	0.37	0.43	0.39
Other Asia	0.09	0.54	0.70	0.43	0.35	0.50	0.36	0.21	0.22	0.05	0.21	0.18	0.20	0.20	0.32	0.22
Latin America	-0.08	0.22	0.23	0.18	0.13	0.19	0.14	0.14	0.11	0.10	0.12	0.10	0.11	0.12	0.12	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	1.65	2.16	1.40	0.49	0.87	0.72	0.87	1.09	1.28	1.23	1.43	1.26
World	1.53	2.36	4.05	3.01	2.59	3.00	1.80	1.06	1.01	0.50	1.09	1.35	1.59	1.88	2.50	1.83
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-	-	-	-	-	-	0.04	-0.14	-0.03	-0.04	0.04	0.03	0.01	0.01
Europe	-	-	-	-	-	-	-	-	-0.03	-0.07	-0.03	-0.03	-0.03	-0.04	-0.04	-0.04
Pacific	-	-	-	-	-	-	-	-	-	0.11	0.03	0.07	0.01	-	-0.04	0.01
Total OECD	-	-	-	-	-	-	-	-	0.01	-0.11	-0.03	-	0.01	-0.01	-0.08	-0.02
FSU	-	-	-	-	-	-	-	-	-	-0.18	-0.05	0.01	0.04	-	-0.09	-0.01
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-0.04	-0.01	-0.03	-0.01	-0.01	-0.01	-0.01
Other Asia	-	-	-	-	0.01	-	-	-	-	0.01	-	-0.01	-0.01	0.02	0.01	-
Latin America	-	-	-	-	-	-	-	-	0.01	-0.04	-0.01	-	-	0.01	-0.03	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	0.01	-	-	-	0.01	-0.25	-0.06	-0.03	0.02	0.01	-0.12	-0.03
World	-	-	-	-	0.02	0.01	-	-	0.02	-0.36	-0.09	-0.03	0.04	0.01	-0.20	-0.05

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	3Q05	4Q05	1Q06	2Q06	3Q06	Oct 05	Nov 05	Dec 05
OPEC											
Crude Oil											
Saudi Arabia	8.75	9.15		9.26	9.21				9.17	9.26	9.21
Iran	3.93	3.88		3.81	3.87				3.92	3.85	3.85
Iraq	1.99	1.81		1.96	1.66				1.74	1.70	1.55
UAE	2.35	2.45		2.53	2.56				2.56	2.56	2.56
Kuwait	2.05	2.13		2.11	2.21				2.22	2.19	2.22
Neutral Zone	0.60	0.58		0.57	0.58				0.57	0.59	0.59
Qatar	0.77	0.80		0.80	0.83				0.83	0.83	0.83
Nigeria	2.32	2.40		2.39	2.45				2.42	2.47	2.46
Libya	1.55	1.64		1.65	1.65				1.65	1.65	1.65
Algeria	1.20	1.34		1.36	1.37				1.37	1.37	1.37
Venezuela	2.17	2.10		2.10	2.08				2.05	2.14	2.05
Indonesia	0.97	0.94		0.94	0.94				0.94	0.95	0.94
Total Crude Oil	28.64	29.23		29.47	29.40				29.42	29.54	29.26
Total NGLs[1]	4.32	4.74	5.10	4.79	4.80	4.92	5.01	5.17	4.82	4.73	4.85
Total OPEC	32.96	33.98		34.25	34.20				34.24	34.27	34.11
NON-OPEC[2]											
OECD											
North America	14.58	14.07	14.30	13.72	13.57	14.35	14.34	14.17	12.99	13.60	14.13
United States	7.66	7.28	7.28	7.04	6.64	7.27	7.31	7.29	6.22	6.69	7.01
Mexico	3.83	3.76	3.77	3.70	3.73	3.81	3.79	3.75	3.63	3.72	3.85
Canada	3.09	3.03	3.25	2.99	3.20	3.26	3.23	3.13	3.14	3.18	3.27
Europe	6.10	5.66	5.40	5.42	5.56	5.68	5.38	5.14	5.42	5.56	5.71
UK	2.06	1.85	1.66	1.66	1.82	1.80	1.64	1.54	1.80	1.83	1.85
Norway	3.19	2.97	2.95	2.93	2.93	3.08	2.95	2.81	2.82	2.91	3.05
Others	0.85	0.84	0.79	0.83	0.81	0.80	0.79	0.78	0.80	0.83	0.81
Pacific	0.58	0.58	0.56	0.60	0.55	0.57	0.54	0.56	0.54	0.56	0.55
Australia	0.54	0.54	0.52	0.56	0.51	0.53	0.50	0.52	0.50	0.51	0.51
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	20.31	20.26	19.75	19.68	20.59	20.26	19.86	18.94	19.72	20.38
NON-OECD											
Former USSR	11.22	11.60	12.13	11.63	11.88	11.94	12.07	12.22	11.81	11.90	11.92
Russia	9.23	9.48	9.79	9.54	9.65	9.66	9.74	9.86	9.63	9.65	9.67
Others	1.99	2.12	2.34	2.10	2.23	2.28	2.33	2.37	2.19	2.25	2.24
Asia	6.23	6.36	6.43	6.39	6.42	6.43	6.45	6.42	6.42	6.37	6.45
China	3.48	3.63	3.62	3.64	3.63	3.63	3.62	3.62	3.64	3.61	3.63
Malaysia	0.86	0.83	0.84	0.85	0.85	0.86	0.85	0.84	0.86	0.83	0.86
India	0.80	0.77	0.79	0.73	0.75	0.75	0.80	0.81	0.75	0.75	0.75
Others	1.09	1.14	1.17	1.18	1.19	1.19	1.18	1.16	1.18	1.18	1.22
Europe	0.17	0.16	0.15	0.16	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Latin America	4.07	4.27	4.49	4.28	4.31	4.40	4.45	4.51	4.29	4.32	4.32
Brazil	1.79	1.99	2.26	2.02	2.05	2.15	2.22	2.29	2.03	2.05	2.07
Argentina	0.80	0.76	0.69	0.76	0.73	0.71	0.70	0.68	0.72	0.73	0.73
Colombia	0.53	0.53	0.53	0.53	0.52	0.52	0.53	0.53	0.53	0.52	0.52
Ecuador	0.53	0.53	0.55	0.51	0.55	0.55	0.55	0.55	0.54	0.55	0.55
Others	0.42	0.47	0.46	0.47	0.46	0.47	0.46	0.46	0.47	0.46	0.46
Middle East[3]	1.92	1.87	1.81	1.87	1.85	1.84	1.82	1.81	1.87	1.85	1.84
Oman	0.79	0.77	0.75	0.77	0.76	0.76	0.75	0.75	0.77	0.76	0.76
Syria	0.49	0.46	0.43	0.46	0.45	0.44	0.43	0.43	0.45	0.45	0.45
Yemen	0.41	0.41	0.41	0.41	0.42	0.42	0.41	0.41	0.42	0.42	0.42
Africa	3.39	3.70	4.25	3.80	3.91	4.07	4.18	4.29	3.86	3.94	3.94
Egypt	0.71	0.70	0.68	0.69	0.70	0.69	0.68	0.68	0.70	0.70	0.68
Angola	0.99	1.24	1.50	1.32	1.39	1.41	1.44	1.49	1.35	1.42	1.40
Gabon	0.24	0.23	0.23	0.24	0.24	0.24	0.24	0.23	0.24	0.24	0.24
Others	1.46	1.53	1.84	1.55	1.59	1.73	1.83	1.89	1.58	1.57	1.62
Total Non-OECD	27.00	27.96	29.27	28.13	28.52	28.82	29.13	29.40	28.41	28.53	28.63
Processing Gains[4]	1.83	1.86	1.90	1.84	1.88	1.92	1.89	1.88	1.88	1.88	1.88
TOTAL NON-OPEC	50.09	50.12	51.43	49.72	50.08	51.34	51.28	51.14	49.23	50.13	50.90
TOTAL SUPPLY	83.05	84.10		83.98	84.29				83.47	84.40	85.00

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			
	Jul2005	Aug2005	Sep2005	Oct2005	Nov2005*	Nov2002	Nov2003	Nov2004	4Q2004	1Q2005	2Q2005	3Q2005
North America												
Crude	435.1	422.9	435.1	441.9	439.9	399.8	400.6	409.3	0.06	0.38	0.14	-0.13
Motor Gasoline	237.0	222.9	227.2	229.2	231.3	236.3	232.7	241.0	0.11	0.00	0.00	-0.19
Middle Distillate	206.0	212.7	198.7	198.3	211.2	200.1	209.4	195.2	0.04	-0.26	0.17	0.08
Residual Fuel Oil	46.2	41.2	42.1	43.6	48.4	44.9	44.0	50.1	0.10	-0.02	-0.03	-0.04
Total Products[3]	689.7	673.2	663.9	664.4	676.9	657.3	652.3	656.6	0.01	-0.32	0.57	-0.15
Total[4]	1278.8	1250.0	1259.4	1270.1	1280.4	1213.2	1207.2	1215.9	-0.10	-0.01	0.82	-0.16
Europe												
Crude	338.5	335.5	339.8	336.7	335.9	314.5	327.9	348.2	-0.13	0.24	-0.06	0.02
Motor Gasoline	105.7	105.6	106.2	109.4	108.4	113.6	115.5	111.0	0.04	0.07	-0.19	0.03
Middle Distillate	254.9	259.2	259.6	264.5	262.1	242.1	239.4	239.5	-0.10	0.05	-0.03	0.19
Residual Fuel Oil	72.6	73.9	76.0	77.7	81.1	79.1	77.2	72.9	-0.02	-0.07	0.04	0.04
Total Products[3]	534.8	541.6	543.0	555.5	555.4	534.6	537.5	527.3	-0.07	0.06	-0.23	0.26
Total[4]	945.4	949.6	957.9	967.6	965.7	913.6	938.3	948.1	-0.19	0.33	-0.31	0.32
Pacific												
Crude	183.8	181.9	168.1	174.6	165.2	159.7	160.7	192.3	0.03	-0.02	0.08	-0.09
Motor Gasoline	24.4	22.9	22.8	24.4	24.5	23.6	23.2	24.8	0.00	0.01	-0.01	-0.02
Middle Distillate	68.1	73.8	77.9	84.4	78.9	72.0	81.9	82.9	0.00	-0.29	0.11	0.21
Residual Fuel Oil	25.7	23.5	23.9	24.0	23.4	21.7	23.0	23.7	0.01	-0.01	0.02	0.01
Total Products[3]	186.4	188.0	191.8	201.3	192.4	186.9	197.0	200.9	0.02	-0.37	0.20	0.20
Total[4]	441.9	442.4	432.4	451.6	432.2	420.2	432.0	467.6	0.01	-0.45	0.36	0.11
Total OECD												
Crude	957.3	940.3	942.9	953.2	940.9	874.0	889.2	949.8	-0.04	0.60	0.17	-0.20
Motor Gasoline	367.2	351.3	356.2	363.0	364.2	373.5	371.4	376.8	0.15	0.08	-0.19	-0.19
Middle Distillate	528.9	545.6	536.2	547.2	552.2	514.2	530.6	517.6	-0.06	-0.51	0.25	0.48
Residual Fuel Oil	144.4	138.6	142.0	145.2	152.8	145.7	144.2	146.7	0.09	-0.10	0.03	0.01
Total Products[3]	1410.9	1402.7	1398.8	1421.3	1424.6	1378.8	1386.8	1384.8	-0.04	-0.63	0.54	0.31
Total[4]	2666.0	2642.0	2649.7	2689.3	2678.3	2547.0	2577.5	2631.6	-0.28	-0.13	0.87	0.26

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			
	Jul2005	Aug2005	Sep2005	Oct2005	Nov2005*	Nov2002	Nov2003	Nov2004	4Q2004	1Q2005	2Q2005	3Q2005
North America												
Crude	698.8	700.7	693.7	685.2	685.9	595.9	633.6	672.8	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	165.2	166.3	167.0	167.0	167.0	155.7	154.0	164.1	0.11	-0.04	0.01	0.02
Products	238.2	239.0	237.4	236.8	236.8	195.2	211.5	205.0	0.01	0.04	0.26	0.02
Pacific												
Crude	384.2	383.5	382.1	381.1	380.5	379.6	382.8	382.5	0.00	0.00	-0.01	-0.01
Products	11.3	11.5	11.2	11.2	11.3	8.9	10.7	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1248.2	1250.5	1242.7	1233.3	1233.4	1131.3	1170.4	1219.3	0.16	0.10	0.09	-0.02
Products	251.6	252.5	250.6	250.0	250.1	206.1	224.2	218.1	0.01	0.04	0.26	0.02
Total[4]	1500.8	1504.0	1494.3	1484.3	1484.5	1338.3	1395.5	1438.4	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	73	172.7	-
Mexico	41.4	21	41.3	21	44.2	21	45.6	22	52.8	-
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	1955.0	77
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	7.9	-
Total	825.5	94	825.9	87	785.0	97	816.8	101	825.6	93
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	53	30.3	-
Czech Republic	16.9	80	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	83	34.6	-
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	72	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	54	108.7	-
Total	1311.8	82	1304.3	84	1333.8	87	1330.2	85	1363.3	86
Total OECD	4018.8	80	4008.2	80	4008.5	83	4119.9	84	4144.0	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	4144	1494	2650	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 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	Aug 05	Sep 05	Oct 05	Year Earlier Oct 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.52	0.45	0.45	0.40	0.31	0.29	0.44	0.58	-0.14
Europe	0.92	1.00	1.03	1.08	0.88	0.88	0.92	0.98	0.94	0.81	1.05	-0.24
Pacific	1.22	1.18	1.24	1.47	1.40	1.22	1.25	1.19	1.32	1.28	1.34	-0.06
Saudi Medium												
North America	0.70	0.83	0.80	0.90	0.97	0.89	0.53	0.48	0.34	0.60	0.78	-0.18
Europe	0.11	0.11	0.11	0.16	0.12	0.13	0.20	0.19	0.18	0.13	0.12	0.01
Pacific	0.16	0.24	0.23	0.23	0.21	0.24	0.26	0.30	0.23	0.26	0.23	0.03
Saudi Heavy												
North America	0.20	0.30	0.22	0.26	0.18	0.15	0.20	0.18	0.15	0.14	0.31	-0.17
Europe	0.09	0.19	0.23	0.20	0.19	0.20	0.27	0.28	0.31	0.29	0.23	0.05
Pacific	0.12	0.16	0.15	0.18	0.25	0.20	0.26	0.26	0.31	0.23	0.15	0.08
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.67	0.56	0.69	0.52	0.31	0.41	0.65	0.65	0.00
Europe	0.08	0.09	0.21	0.13	0.19	0.19	0.24	0.15	0.24	0.30	0.10	0.19
Pacific	0.02	0.03	0.12	0.15	0.07	0.06	0.06	0.06	0.07	0.06	0.21	-0.15
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	0.07	0.16	0.04	0.09	-0.05
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.27	0.23	0.18	0.16	0.20	0.13	0.15	0.36	-0.21
Pacific	0.12	0.17	0.16	0.16	0.19	0.13	0.14	0.16	0.12	0.15	0.14	0.01
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.54	0.62	0.63	0.71	0.68	0.62	0.50	0.56	-0.06
Pacific	0.54	0.69	0.65	0.63	0.76	0.59	0.52	0.43	0.54	0.54	0.65	-0.11
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.63	0.78	0.88	0.79	0.84	0.69	0.70	0.57	0.13
Europe	0.08	0.02	0.01	0.01	0.02	0.03	0.06	0.13	0.03	0.01	0.02	0.00
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.95	0.83	0.82	0.66	0.77	0.43	0.46	0.93	-0.47
Europe	0.05	0.06	0.05	0.04	0.06	0.06	0.08	0.10	0.07	0.07	0.05	0.02
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.37	1.30	1.36	1.17	1.36	1.03	1.13	1.44	-0.31
Europe	0.17	0.16	0.16	0.13	0.18	0.17	0.16	0.15	0.21	0.25	0.15	0.10
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	0.10	..	..
Europe	0.01	0.00	0.01	0.02	0.02	0.01	0.02	0.01	0.03	0.09	0.03	0.06
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	0.18	0.10	0.18	0.20	-0.01
Europe	1.32	1.62	1.86	1.56	1.72	1.93	1.76	1.86	1.74	1.75	1.49	0.25
Pacific	0.01	0.00	0.01	..	..	0.00	0.01	..	..	..	..	..
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.73	0.87	0.88	0.94	0.94	0.89	0.85	0.68	0.17
Europe	0.32	0.41	0.28	0.30	0.30	0.27	0.41	0.46	0.38	0.30	0.32	-0.02
Pacific	0.06	0.08	0.11	0.13	0.06	0.06	0.07	0.04	0.06	0.06	0.06	0.00
Nigerian Medium												
North America	0.16	0.17	0.23	0.20	0.18	0.22	0.13	0.19	0.09	0.02	0.24	-0.22
Europe	0.06	0.06	0.04	0.02	0.07	0.04	0.08	0.08	0.11	0.07	0.01	0.07
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	Aug-05	Sep-05	Oct-05	Year Earlier Oct-04	Year Earlier % change
Crude Oil												
North America	7584	8069	8397	8442	8577	8614	8200	8410	7470	7963	8353	-5%
Europe	8734	9096	9477	9543	9695	9503	10078	9963	10241	10049	9140	9%
Pacific	6422	6711	6659	6998	7166	6434	6642	6657	6310	7039	6745	4%
Total OECD	22740	23876	24533	24984	25438	24552	24920	25030	24021	25052	24238	3%
LPG												
North America	39	27	24	45	23	3	18	11	32	32	32	0%
Europe	225	193	225	262	293	149	207	201	246	217	273	-25%
Pacific	553	541	541	561	532	591	500	455	497	358	570	-59%
Total OECD	817	760	790	869	848	743	724	667	774	607	874	-44%
Naphtha												
North America	42	67	86	144	124	89	151	160	105	62	151	-142%
Europe	298	305	282	251	279	231	287	239	294	253	245	3%
Pacific	705	770	769	748	772	759	693	715	692	828	715	14%
Total OECD	1045	1142	1137	1143	1175	1080	1132	1113	1090	1144	1112	3%
Gasoline[3]												
North America	643	669	766	744	849	1020	1020	915	1166	1397	809	42%
Europe	152	150	137	138	172	145	204	249	133	116	155	-34%
Pacific	58	70	105	106	95	130	92	105	71	65	89	-37%
Total OECD	853	888	1007	988	1115	1294	1316	1269	1370	1577	1052	33%
Jet & Kerosene												
North America	97	97	88	116	67	43	139	92	167	302	118	61%
Europe	253	271	293	331	273	361	435	484	413	364	327	10%
Pacific	97	102	77	103	97	72	49	41	59	51	95	-86%
Total OECD	448	470	457	550	437	476	623	618	639	717	540	25%
Gasoil/Diesel												
North America	102	126	122	91	110	92	99	105	123	316	83	74%
Europe	656	652	751	876	931	716	806	752	866	759	861	-13%
Pacific	53	73	74	66	60	94	79	73	80	54	61	-12%
Total OECD	811	850	946	1034	1101	902	983	930	1068	1128	1005	11%
Heavy Fuel Oil												
North America	237	326	388	524	489	433	566	540	627	655	600	8%
Europe	470	398	405	396	415	550	528	538	544	454	434	4%
Pacific	89	88	76	64	83	82	90	82	77	61	64	-5%
Total OECD	796	812	870	984	988	1065	1184	1160	1248	1170	1098	6%
Other Products												
North America	689	680	824	774	735	1064	1157	1048	1313	1374	715	48%
Europe	735	690	676	658	718	807	798	769	801	850	612	28%
Pacific	256	235	256	252	254	248	225	222	206	230	223	3%
Total OECD	1681	1605	1756	1684	1708	2119	2180	2039	2320	2453	1550	37%
Total Products												
North America	1849	1991	2298	2439	2399	2745	3150	2870	3532	4137	2508	39%
Europe	2790	2657	2767	2912	3082	2960	3264	3232	3296	3012	2907	4%
Pacific	1811	1879	1898	1901	1894	1975	1728	1694	1682	1647	1816	-10%
Total OECD	6451	6527	6964	7252	7374	7679	8142	7796	8510	8796	7231	18%
Total Oil												
North America	9434	10061	10695	10881	10976	11359	11350	11279	11002	12101	10861	10%
Europe	11524	11753	12245	12455	12777	12463	13342	13195	13537	13061	12047	8%
Pacific	8233	8590	8558	8899	9059	8409	8370	8351	7992	8686	8561	1%
Total OECD	29190	30403	31497	32236	32812	32231	33062	32826	32532	33848	31469	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

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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 (©2006 Platt's - a division of McGraw-Hill Inc.).

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OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

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INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

10 February 2006

HIGHLIGHTS

- NYMEX crude futures reached $68.35/bbl at the end of January before falling back to $62.55/bbl on 8 February. Physical supply disruptions and market concerns over Iran and Nigeria were partly offset by an improving US inventory position. Concerns ahead of refinery maintenance and product specification changes in the US kept gasoline cracks firm in January, while cold weather supported Asian kerosene.

- Global oil supply in January suffered from weather-related and other outages amounting to 450 kb/d. Offsetting increases, however, held world supply at 84.6 mb/d, only 135 kb/d below December. Non-OPEC output is revised up 20-30 kb/d for 2005 and 2006, averaging 50.15 mb/d and 51.45 mb/d respectively. OPEC NGL growth amounts to 0.3 mb/d in 2006.

- OPEC crude supply fell 65 kb/d in January to 29.2 mb/d. Sabotage-prone Iraqi and Nigerian supply averaged 1.5 mb/d and 2.4 mb/d respectively. Effective OPEC spare capacity is only 1.4 mb/d, but net capacity increases of 0.5 mb/d should materialise by mid-year. The 2006 call on OPEC crude and stock change remains at 28.6 mb/d.

- Overall, global oil demand growth has been revised down marginally to 1.78 mb/d for 2006. Unusually cold weather in Europe was largely offset by mild North American weather and weak US petrochemical demand. Pockets of weakness were seen in other areas, but 2006 is expected to see a recovery in Chinese and US demand growth.

- OECD total industry oil stocks fell by 65 mb in December as extremely cold weather pulled down distillate stocks in the Pacific. Total stocks of 2597 mb ended 39 mb higher than a year ago and represented 51 days of forward demand cover. Total oil stocks drew by 45 mb, or 0.5 mb/d over the fourth quarter, close to the five-year average pace.

Next Issue: 14 March 2006

INTERNATIONAL ENERGY AGENCY (IEA)

AGENCE INTERNATIONALE DE L'ENERGIE

RECRUITMENT

The International Energy Agency

The International Energy Agency (IEA) is an intergovernmental body committed to advancing the security of energy supply, economic growth and environmental sustainability through energy policy co-operation. Based in Paris, it operates as an autonomous agency within the Organisation for Economic Co-operation and Development (OECD), a forum where 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

OECD OCDE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Organisation de coopération et de développement économiques

The International Energy Agency is Seeking to Recruit a Head of its Emergency Planning & Preparations Division

A Three-to-Five Year Fixed-Term Appointment as of 1 August 2006

We are looking for a Head of the Emergency Planning and Preparations Division (EPPD) of the Office of Oil Markets and Emergency Preparedness (OME). Under the supervision of the OME Director, s/he will design and co-ordinate the IEA's emergency response mechanism. The successful applicant will supervise and manage the work of the EPPD and will lead a multidisciplinary team of professional and support staff and consultants, assign tasks and will provide advice and guidance. Other major responsibilities include:

- The supervision, design and improvement of emergency response systems and strategies, responding to market developments and manage their timely and effective implementation in actual oil supply disruptions;
- Plan and organise meetings of the Standing Group on Emergency Questions (SEQ), supervise the drafting of reports and papers and co-ordinate preparations with the Chairmen of the SEQ and the Industry Advisory Board (IAB);
- Co-ordinate the IEA's activities with the IAB and the Industry Supply Advisory Group (ISAG) and represent the Secretariat at their meetings. Make presentations to other bodies outside the OECD, notably national emergency organisations and stockholding agencies;
- Regularly monitor the state of emergency preparedness of Member countries and co-operate with IEA Candidate and non-member countries in emergency response preparations;
- Ensure the timely achievement of the Agency's objectives in the development of all aspects of IEA emergency response to oil supply disruptions and other threats to the IEA's collective energy security (i.e. in gas and electricity supplies) and provide information on and timely analysis of oil/energy and geopolitical situations affecting energy supply security.

The ideal candidate should have a demonstrated ability to direct and co-ordinate work in the above fields as well as:

- An advanced university degree in economics, business studies, political science, information technology or chemical engineering or any other related fields;
- An extensive experience (minimum 15 years) in international oil supply logistics and energy economics and a good understanding of the operation of the international oil/energy market;
- A proven experience in team-building and in planning, co-ordinating and supervising the work of a multidisciplinary team and the ability to establish and maintain professional contacts within and outside the Organisation, in particular with senior staff in administrations, the oil industry and the broader energy community;
- A dynamic and pro-active personality and, above all, the ability to work under pressure, notably in oil supply disruptions;
- An excellent level of oral and written communication skills and excellent drafting ability in English; a working knowledge of French and other languages would be an advantage.

The complete vacancy notice and application form can be found at www.oecd.org/hrm/vacancies. Applications (in English or French) from nationals of OECD Member countries, quoting the reference 001797, should be submitted on-line before midnight Paris time on **Saturday 4 March 2006**.

The International Energy Agency is Seeking a Senior Oil Market Analyst

A Three-to-Five Year Fixed-Term Appointment

The successful applicant will be part of the short- and medium-term forecasting team, with a primary responsibility for examining developments and future prospects in oil demand for the *Oil Market Report*, other IEA publications and Member governments. Major responsibilities include:

- Participate in interdisciplinary teams which monitor, analyse, assess and report on developments and future prospects in international oil markets in terms of supply, consumption, stocks, prices and refining operations;
- Analyse and forecast developments in global oil demand in the short and medium term and monitor developments in the broader oil sector. Develop and implement appropriate computer systems, models and forecasting tools for carrying out this analysis;
- Participate in the overall analytical work of the Division and the Agency;
- Research and draft appropriate sections of the IEA's *Oil Market Report*. Present analysis and findings to meetings of the IEA Governing Board and its Standing Groups as well as represent the Secretariat on subjects related to oil market analysis at international conferences and seminars;
- Develop and maintain contacts in the oil industry, governments and oil consultancies.

The ideal candidate should possess:

- A university degree in economics, business or petroleum-related subject, ideally supplemented by a relevant advanced university degree;
- At least eight to ten years' relevant work experience, particular in energy and economic analysis;
- Strong computer/modelling skills;
- Policy experience with exposure to energy questions in government and/or industry;
- An excellent level of oral and written communication skills and excellent drafting ability in English; a working knowledge of other languages would be an advantage.

Short-listed candidates for this vacancy may be required to undergo a written exercise

The complete vacancy notice and application form can be found at www.oecd.org/hrm/vacancies. Applications (in English or French) from nationals of OECD Member countries, quoting the reference 001844, should be submitted on-line before midnight Paris time on **Sunday 12 March 2006**.

The International Energy Agency is Seeking an Energy Analyst

A Three-to-Five Year Fixed-Term Appointment

We are looking for an Energy Analyst who, under the supervision of the Head of the Non-Member Countries Division for Europe, Middle East and Africa within the IEA, will manage and contribute to the work carried out on energy, economic and geo-political developments in non-member countries in the Middle East and North Africa. Major responsibilities include:

- Monitor and analyse energy, economic and geo-political developments in Middle East and North African countries with particular emphasis on their implications for world energy supply and demand, and hence, energy security;
- Provide insights, analysis and data to other IEA tasks on Middle East and North African countries, including the *Oil Market Report*, IEA studies on the energy outlook or other Agency-wide studies;
- Seek out data and make recommendations to improve and extend IEA energy statistics and other information concerning Middle East and North African countries;
- Develop and maintain appropriate contacts with government, industry and associations in the countries of the region with a view to improving mutual understanding and increasing information exchange;
- Prepare and organise seminars and other appropriate meetings on oil and gas-related topics in the context of the ongoing dialogue between energy-producing and -consuming countries.

The ideal candidate should possess:

- An advanced university degree in economics, energy economics or other relevant discipline;
- A broad experience, including eight to ten years' work experience, in the Middle East/North Africa, preferably in the energy sector and in conducting energy, economic and policy analysis;
- Sound administrative experience, preferably including working with or through committees;
- An excellent knowledge of, and drafting ability in, English; a working knowledge of French;
- A knowledge of Arabic would be a definite asset.

The complete vacancy notice and application form can be found at www.oecd.org/hrm/vacancies. Applications (in English or French) from nationals of OECD Member countries, quoting the reference 001787, should be submitted on-line before midnight Paris time on **Friday 24 February 2006**.

CONTENTS

HIGHLIGHTS....1

LOOK BEHIND THE HEADLINES....5

DEMAND....6
- Summary....6
- OECD....8
- Key Issues in Mid-Term Demand: The Growing Impact of Non-OECD Consumption....8
  - Pacific....9
  - Europe....10
  - North America....11
- Non-OECD....12
  - China....12
- Comparing Apples and Oranges: The Latest Chinese Demand Announcements....14
  - Other Non-OECD....15

SUPPLY....16
- Summary....16
- OPEC....17
- Iranian Oil Supply Concerns Remain Hypothetical For Now....19
- OECD....20
  - North America....20
  - North Sea....21
  - Pacific....22
- Former Soviet Union (FSU)....22
- Other Non-OPEC....24
  - Revisions to Other Non-OPEC Estimates....24

OECD STOCKS....25
- Summary....25
- OECD Industry Stock Changes in December 2005....26
  - OECD North America....26
  - OECD Europe....26
  - OECD Pacific....27
- OECD Inventory Position at End-December and Revisions to Preliminary Data....27
- Recent Developments in ARA Independent Storage....28
- Recent Developments in Singapore Stocks....28

PRICES....30
- Summary....30
- Oil Futures Prices in January....31
  - Crude Futures....32
  - Product Futures....32
- Crude Oil Prices in January....33
  - Benchmark Crudes....33
  - Europe and West Africa....33
  - The Americas....34
  - Middle East and Asia....35
  - Delivered Crude Prices in November....35
- Product Prices in January....36
  - Spot Product Prices....36
  - The Americas....37
  - Europe....37
  - Singapore....39
  - End-User Product Prices in January....39
- Freight....41

REFINERY ACTIVITY....42
- Summary....42
- Refining Margins....43
- Refinery Throughput....46

TABLES....49

OIL MARKET REPORT CONTACTS

LOOK BEHIND THE HEADLINES

According to the headlines, Iran and Nigeria (and to a lesser extent Venezuela) would appear to have been the prime driving force behind the moves in crude prices since the beginning of the year. But while political developments make compelling reading, it is often easy to overstate their influence.

Despite the headline-grabbing geopolitical issues in Iran and Nigeria, actual crude supply losses of some 450 kb/d in January were largely focussed elsewhere and were weather-related. Frigid temperatures curbed Russian output by 170 kb/d, closed ports and bolstered demand. Australian output was restricted by Cyclones Clare and Daryl, while poor weather conditions and logistical issues slowed Iraqi exports. It was very mild in the US, but this was only a partial offset to cold weather in Europe and Asia.

In comparison, while the press focussed on problems in Iran and Nigeria compensating factors received little coverage. New production helped offset Nigerian outages, reducing the net supply loss to an estimated 45 kb/d from December levels. There was also an increase in Iranian output. Political instability may have a greater effect on supply in months to come, but for now the impact has been minimal.

The fundamentals, rather than political developments, provide a very clear indication of why prices rose in early January and then dipped in the second half of the month. That is not to say that geopolitical issues are irrelevant, but it must always be remembered that current crude prices are the sum of a multitude of factors, some of which could create further pressures in either direction, others that may become less influential.

A lack of refinery upgrading capacity was a prominent factor in the $23/bbl rise in oil prices from mid-2003 to October 2004. Although upgrading issues would appear to have been surpassed by supply-side disruptions last year, they remain a key component behind elevated prices heading into 2006.

Reductions in MTBE blending in gasoline and lower-sulphur regulations have been cited for pushing up forward product prices. There are concerns that they could (via refinery yield and logistical considerations) lower supplies of transportation fuels this year. Should the fears prove overstated (as they were in Europe in 2004/5), they could come out of the equation later in the year. Another factor in the balance is projected higher light sweet crude production this year, which could boost gasoline and diesel yields. On balance though, refinery issues seem likely to remain a supportive factor until at least the end of the summer.

Stock issues have the potential to support prices through to the second half of the year. At 51 days of forward cover, relative end-December OECD crude and product inventories are unchanged from a year earlier and not far above the 49-day recorded low. But, while crude stocks are close to five-year highs, product inventories are trending towards the bottom of the range. This is not really surprising given the hurricane damage to US refineries and extreme cold weather in Asia, but it is a concern heading into the refinery maintenance season.

High prices also reflect the market's desire for a cushion of stocks or spare capacity. But this is one area that should show a marginal improvement in 2006. OPEC capacity is projected to rise by 1 mb/d over the year and total capacity growth should outpace demand. This should lead to a rise in either spare capacity or, if OPEC decides to elevate production, a build in stocks.

Medium-term investment issues are likely to retain a firm grip on the long-term oil price, until clear signs emerge that upstream and downstream capacity growth and improvements in energy efficiency are sufficient to offset concerns about strong non-OECD demand, shifting consumption patterns and changing environmental and product specifications.

This list of components underpinning the current oil prices is not exhaustive. There are many other factors to consider – notably the use of strategic stocks in the event of a supply disruption. Output issues in Iraq and Nigeria could shift either way according to political developments. Similarly, the situation in Iran could change, but this is also true of the other ingredients that make up the current oil price.

DEMAND

Summary

- **Weather developments** have driven oil product demand in different regions in recent months. In December and part of January, much of Asia was extremely cold, contributing to substantial increases in oil product demand—particularly for kerosene which is used for heating. Europe, and especially parts of the FSU, went through a period of extraordinarily low temperatures in January that persisted into February. Interruptions to Russian natural gas supplies likely induced switching to oil products in some European countries. This was offset to a certain extent by very warm temperatures in much of North America throughout most of January.

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	84.0	82.2	84.1	82.0	82.9	84.1	83.3	85.4	83.5	84.7	86.7	85.1
Annual Change (%)	3.0	5.3	3.8	3.2	3.8	2.3	1.5	1.4	0.1	1.3	1.5	1.8	2.1	3.2	2.1
Annual Change (mb/d)	2.4	4.1	3.0	2.6	3.0	1.9	1.2	1.1	0.1	1.1	1.2	1.5	1.8	2.7	1.8
Changes from last month's report (mb/d)	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1	-0.4	0.0	0.0	0.0	0.0	-0.2	-0.1

- **Global oil product** demand growth is revised down marginally, from 1.09 mb/d to 1.06 mb/d for 2005 and from 1.83 mb/d to 1.78 mb/d for 2006. The projected 2006 demand recovery is largely predicated upon more robust Chinese demand growth and a rebound in US demand in the second half of 2006 versus a hurricane-affected 2005 baseline.

- **OECD demand** declined by some 440 kb/d year-on-year in the fourth quarter of 2005. Higher product prices eroded oil consumption in all regions and in North America demand for petrochemical feedstocks fell off sharply. OECD Asia demand growth remained positive in the fourth quarter as low December temperatures boosted consumption. On the whole, OECD demand increased by only 160 kb/d in 2005, well below the 840 kb/d growth witnessed in 2004. Note that the weakening in OECD demand in 2005 is due primarily to a year-end drop-off associated with hurricane related market disruptions and mild weather. Over the first half of the year, OECD demand growth averaged a more robust 490 kb/d.

Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2005	2004	2005	2006	2004	2005	2006
North America	25.45	0.81	0.11	0.44	3.3	0.5	1.7
Europe	16.29	0.22	-0.04	0.05	1.3	-0.2	0.3
OECD Pacific	8.63	-0.16	0.10	0.08	-1.9	1.2	1.0
China	6.60	0.86	0.16	0.38	15.4	2.5	5.8
Other Asia	8.73	0.51	0.18	0.20	6.3	2.1	2.3
Subtotal Asia	23.96	1.20	0.44	0.67	5.4	1.9	2.8
FSU	3.81	0.17	0.05	0.13	4.7	1.3	3.3
Middle East	5.91	0.34	0.29	0.30	6.5	5.1	5.0
Africa	2.90	0.09	0.09	0.08	3.2	3.2	2.9
Latin America	4.98	0.19	0.12	0.11	4.1	2.5	2.3
World	83.30	3.02	1.06	1.78	3.8	1.3	2.1

- **Chinese government officials** recently announced that demand fell slightly (0.3-0.5%) in 2005, while this Report estimates that apparent demand grew by some 2.5%. The difference may be traced to alternative methods of estimating demand. This Report measures Chinese apparent demand as the sum of domestic refinery output and net product imports (with adjustments for estimates of direct crude burning, smuggling and unreported refinery output) because it allows us to identify trends in the demand for individual products. In contrast, Chinese government agencies appear to focus more generally on the demand for crude. When crude and product inventories remain largely unchanged these two measures generally move together. However, anecdotal reports and crude delivery data suggest that there was some build in crude inventories at the end of 2004, which contributed to a divergence in assessments of demand growth. Until stock data are published, there will continue to be uncertainty in this area (see 'Comparing Apples and Oranges: The Latest Chinese Demand Announcements').

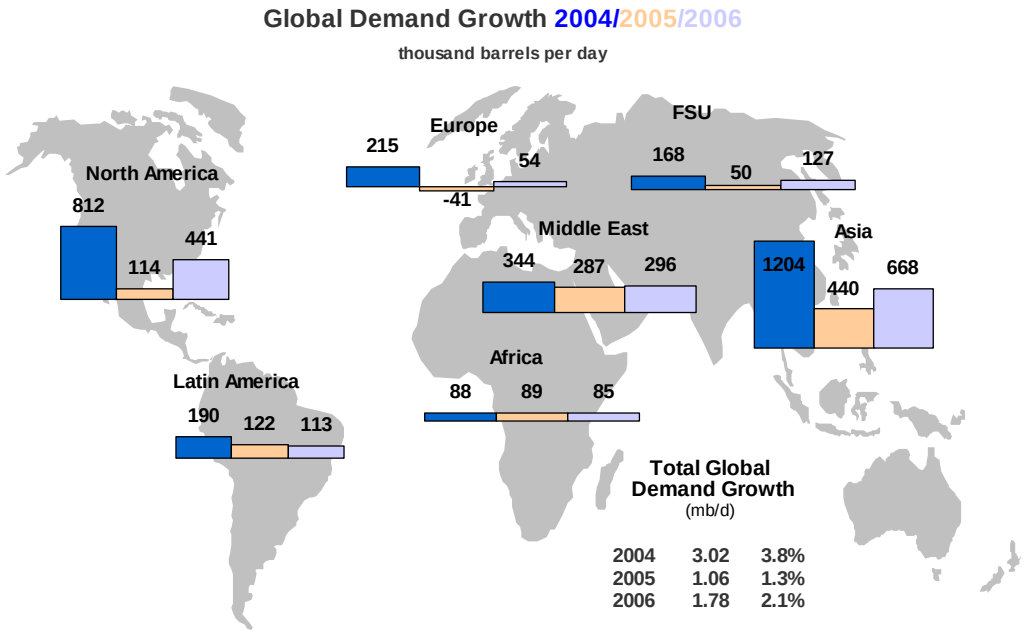
- **Chinese apparent demand** grew by approximately 3.0% in December. After averaging only 1.2% in the first half of 2005, apparent demand growth picked up to about 3.9% in the second half of the year. Although demand for some fuels, such as fuel oil and LPG, will remain relatively weak, apparent demand is expected to grow by 5.8% in 2006 as the economy continues its rapid expansion.

Preliminary Inland Deliveries - December 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]	9.28	0.7	1.70	3.1	3.09	5.6	1.23	-1.6	1.12	22.1	5.1	-3.1	21.53	1.4
Canada	0.69	-3.1	0.12	2.7	0.43	1.7	0.12	-9.8	0.17	-9.7	0.2	-17.6	1.72	-4.7
Mexico	0.75	4.6	0.06	-5.0	0.33	5.4	0.00	na	0.35	30.1	0.4	-4.4	1.90	6.0
Japan	1.14	2.1	1.12	27.3	0.68	-2.7	0.59	4.0	0.49	14.0	1.7	0.8	5.74	6.3
Korea	0.16	-3.6	0.07	7.4	0.44	-2.2	0.23	8.0	0.32	4.6	1.2	4.4	2.40	3.0
France	0.23	-10.3	0.13	4.3	0.62	-2.8	0.39	-9.1	0.06	-14.9	0.4	8.5	1.85	-3.0
Germany	0.51	-8.5	0.16	2.9	0.54	-4.3	0.51	-22.3	0.11	-8.0	0.5	-11.9	2.29	-11.1
Italy	0.31	-10.3	0.07	7.4	0.51	1.0	0.17	-1.8	0.17	-18.4	0.4	-3.1	1.66	-4.6
Total	**13.07**	**-0.1**	**3.42**	**10.0**	**6.64**	**1.8**	**3.25**	**-5.3**	**2.79**	**11.2**	**9.9**	**-2.0**	**39.07**	**0.8**

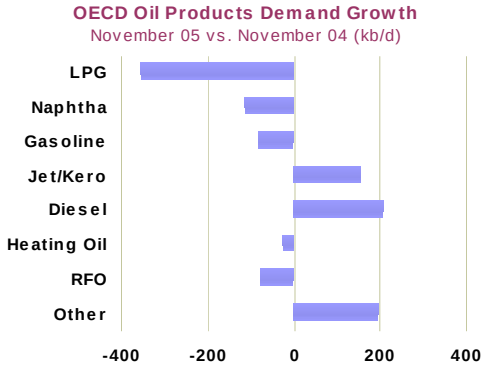
Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry
Percentage change is calculated versus last year
1 excludes refinery fuel and bunkers (except US)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total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

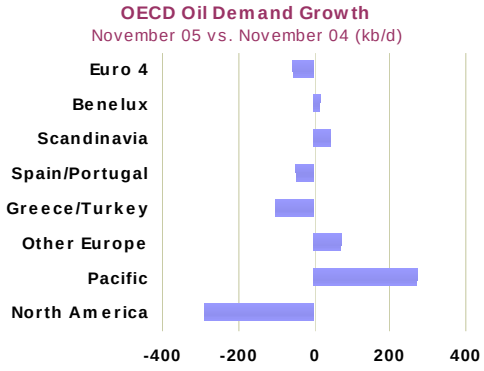
- **FSU apparent demand** (crude production minus net crude and product exports) has been adjusted upwards for 2004-2005, partly due to improved information on Russian rail exports. On the whole, FSU apparent demand is revised up by some 10 kb/d for 2004 and 110 kb/d in 2005. These adjustments are to some extent carried through to the 2006 projections. In 2006, apparent demand is projected to grow by 130 kb/d, boosted in part by an extraordinarily cold January.



- **Southeast Asian demand** has clearly been affected by the reduction/elimination of product price subsidies and a corresponding increase in retail prices. Thailand's oil product demand was down by an estimated 2.4% in the fourth quarter of 2005 and anecdotal reports suggest that Indonesia's demand also declined. 'Other Asia' demand is estimated to have declined by 50 kb/d year-on-year in the fourth quarter of 2005. Demand growth is projected to recover in 2006 as the region's economies are expected to continue to expand by some 5-6%.

OECD





Total OECD Demand by Product
(million barrels per day)

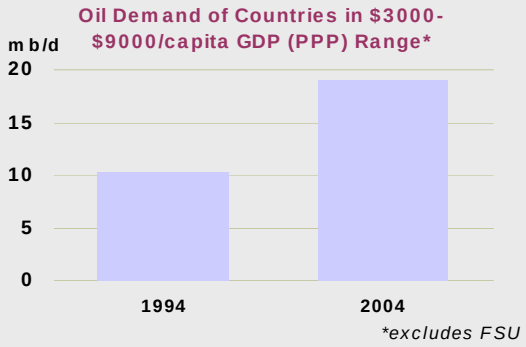
	2004	2005	4Q04	1Q05	2Q05	3Q05	Sep 05	Oct 05	Nov 05	Latest month vs. Oct 05	Latest month vs. Nov 04
LPG & Ethane	4.87	4.68	5.05	5.40	4.33	4.35	4.27	4.19	4.65	0.46	-0.35
Naphtha	3.22	3.23	3.33	3.40	3.15	3.25	3.15	2.96	3.16	0.20	-0.11
Motor Gasoline	14.88	14.87	14.89	14.46	15.09	15.17	14.57	14.50	14.68	0.18	-0.08
Jet & Kerosene	4.11	4.23	4.24	4.62	3.91	4.00	4.02	3.94	4.25	0.32	0.16
Gas/Diesel Oil	12.85	13.03	13.40	13.38	12.64	12.72	13.16	12.82	13.60	0.78	0.19
Residual Fuel Oil	4.59	4.58	4.67	4.88	4.36	4.44	4.48	4.38	4.63	0.25	-0.07
Other Products	4.98	5.04	4.89	4.42	5.23	5.36	5.32	5.13	5.19	0.06	0.20
Total Products	**49.49**	**49.65**	**50.48**	**50.57**	**48.70**	**49.30**	**48.98**	**47.92**	**50.17**	**2.24**	**-0.07**

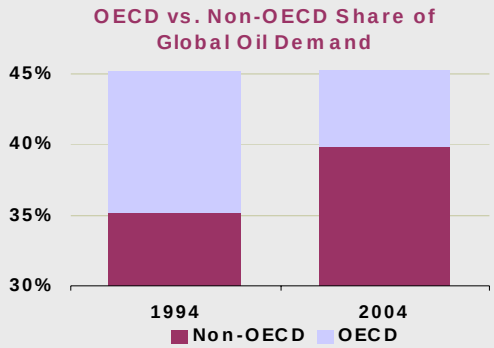
Key Issues in Mid-Term Demand: The Growing Impact of Non-OECD Consumption

Perhaps the most important consideration in evaluating the mid-term demand outlook is the rising importance of non-OECD areas. Due to a combination of rapid economic growth and swiftly expanding manufacturing and transport sectors, non-OECD countries are quickly assuming a large share of oil consumption and are expected to dominate future changes in global oil demand. It is critical to understand why this growth is taking place and the key risk factors that could lead to deviations from the baseline demand projection.

Economic growth is by far the most important driver of oil demand. Because the link between oil consumption and economic output is close, it is not surprising that booming economies in important areas such as developing Asia have posted strong oil demand growth. If, as projected by most economists, underlying economic trends remain strong in these areas, incremental oil demand growth should remain robust.

Structural changes to key developing economies may also point to a period of relatively strong oil demand growth. A variety of research suggests that the income elasticity of oil demand changes at different levels of prosperity. As developing economies reach a stage of growth where a manufacturing sector emerges and purchases of automobiles take-off, the income elasticity tends to increase. When the economy matures and growth in the service sector predominates, growth in oil demand begins to taper off—the income elasticity is lower. Of course, there is not a clearly defined line where this change in elasticity takes place. Some believe that the take-off stage could be around $3,000/capita using a purchasing power parity (PPP) measure of GDP. Further, growth is sometimes thought to taper off in the region of $9,000/capita.





Key Issues in Mid-Term Demand: The Growing Impact of Non-OECD Consumption (continued)

In this context, it is important to note that in recent years, several major non-OECD consuming nations, including China, have passed the $3,000/capita threshold. In 1994, countries in the $3,000-$9,000/capita income bracket consumed only 10.4 mb/d, accounting for about 15% of global demand. By 2004 countries in this income group consumed 19.0 mb/d, accounting for 23% of global demand. Having a larger proportion of oil demand fall in this potentially high growth category may help spur global oil demand growth.

Quite simply, the rapidly expanding size of non-OECD consumption implies an increasingly important role in incremental global oil demand growth. For example, in 2004 non-OECD demand grew by a robust 7.1%, or 2.16 mb/d, to 32.72 mb/d. By contrast, if non-OECD demand had grown by 7.1% in 1994 (from a 1993 level of 24.1 mb/d) oil demand would have increased by only 1.74 mb/d, 420 kb/d less than in 2004. Clearly, the growing absolute size and importance of non-OECD demand is affecting how we view global demand growth over the coming five years.

While the prospects for non-OECD growth impacting future oil demand are large, there exist some important caveats, notably oil price and the growing use of natural gas. A continuing shift towards transport fuels, where demand is typically less price sensitive than in other uses, has lent support to demand in the face of high prices. However, a further rise in oil prices—or even maintaining prices at current levels—may continue to erode mid-term demand growth in developing areas.

Here, retail prices are important. The rise in oil prices since 2003 has pushed some countries towards liberalisation of retail prices. Initial attempts to limit the economic impact of increased costs for transportation and heating fuels led to burdensome increases in subsidies in many (particularly Asian) countries. Not only was the cost of the subsidies high, but consumers had no incentive to change usage patterns, leading to an unsustainable situation. The abandonment or reduction of subsidies was eventually forced upon several countries (including Indonesia and Thailand) by a growing fiscal burden, leading to clear evidence of a drop-off in demand growth.

The growing importance of natural gas (both pipeline and liquefied) in non-OECD economies could also help temper the increase in the demand for oil in these countries. This has been witnessed this in India in recent years, and China certainly has ambitious plans to increase natural gas use. However, a rise in international gas prices appears to have somewhat slowed plans for gas imports in these price-sensitive countries.

It is clear that both short- and medium-term forecasts of non-OECD oil demand growth will be affected by the degree to which price movements are passed on to consumers. Structural changes in the economy and the opportunity for substitution are further important variables to consider. But a combination of robust economic prospects, a shift from an agrarian to a manufacturing and consumer-led economy, and a higher absolute level of oil consumption point towards strong medium-term growth in incremental demand for countries outside of the OECD.

This issue will be further developed in this Report's medium-term outlook released in the second quarter of this year. Also, a detailed analysis of the recent trends in income, price and cross price elasticity of oil demand will be included in a special chapter in the 2006 edition of the *World Energy Outlook*, to be published next autumn.

Pacific

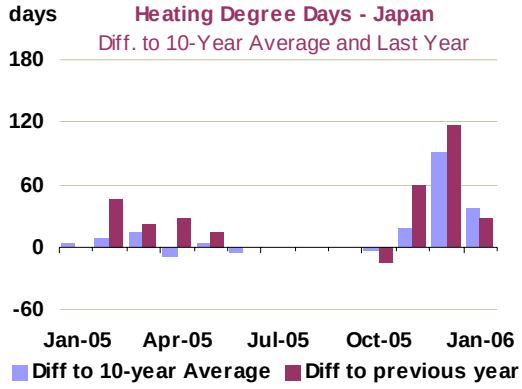
As anticipated, OECD Asia posted strong year-on-year demand growth in December, as temperatures fell to abnormally low levels. Japanese inland deliveries increased by some 6.3% versus December 2004, with deliveries of jet fuel/kerosene (used for heating) up by approximately 27.3% year-on-year. Deliveries of residual fuel oil and 'other products,' which includes crude for direct burning in power generation, also rose substantially. Japanese power companies reportedly purchased over 200 kb/d of crude for direct burning in December, nearly double November levels.

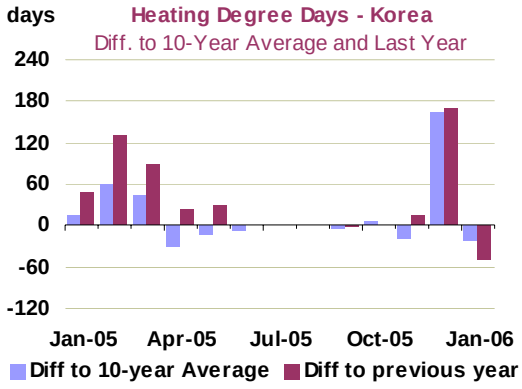
Note that the demand-side impact of Japan's cold snap could extend to coming months as Japanese power companies seek to rebuild inventories of fuel oil and medium/heavy sweet crude for direct burning. Tokyo Electric Power Company's (TEPCO) crude oil consumption reportedly more than trebled in December versus a year ago, while its crude purchases increased by only about one third. Currently, there are anecdotal reports that power companies are rebuilding inventories, which would be measured as an increase in oil demand.

OECD Pacific Demand by Product
(million barrels per day)

	2004	2005	4Q04	1Q05	2Q05	3Q05	Sep 05	Oct 05	Nov 05	Latest month vs. Oct 05	Latest month vs. Nov 04
LPG & Ethane	0.88	0.90	0.88	1.00	0.87	0.83	0.87	0.81	0.91	0.10	0.03
Naphtha	1.57	1.62	1.63	1.69	1.54	1.62	1.67	1.49	1.66	0.17	0.03
Motor Gasoline	1.60	1.61	1.63	1.59	1.59	1.65	1.59	1.51	1.60	0.10	0.02
Jet & Kerosene	1.02	1.06	1.12	1.54	0.77	0.72	0.75	0.78	1.08	0.30	0.13
Gas/Diesel Oil	1.89	1.88	1.95	1.99	1.85	1.76	1.79	1.74	1.95	0.21	0.04
Residual Fuel Oil	1.05	1.05	1.05	1.17	0.98	0.98	0.98	0.98	1.06	0.08	0.00
Other Products	0.52	0.53	0.52	0.52	0.50	0.54	0.57	0.46	0.53	0.07	0.01
Total Products	**8.53**	**8.63**	**8.77**	**9.49**	**8.10**	**8.10**	**8.21**	**7.77**	**8.79**	**1.03**	**0.27**

Korean demand is projected to grow by 1.7% in 2006, exceeding the 0.9% growth witnessed in 2005. This is in large part due to an October 2005 anomaly where demand declined by 9.9% year-on-year. Temperatures were unusually warm and product price spikes associated with the US hurricanes contributed to the fall in demand. Demand is expected to return to trend levels in October 2006, implying a 10.7% year-on-year growth rate for the month. Excluding these October outliers presents a more realistic picture of Korea's tepid demand trend, with 1.9% average growth over the other 11 months of 2005 and 1.1% growth over the same period in 2006.





Europe

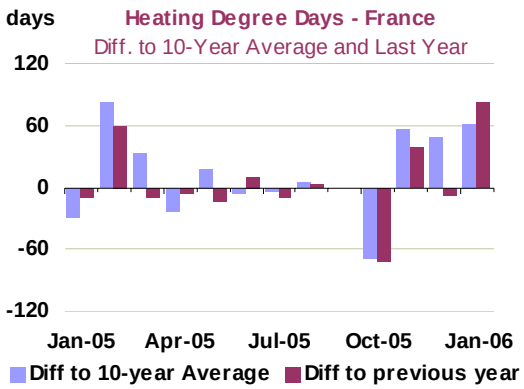
Preliminary indications are that European year-on-year demand growth contracted in December (-2.3%), but strengthened considerably in January (3.8%) with unusually low temperatures. Projections of January demand for OECD Europe have been adjusted upwards by some 330 kb/d, but there could be some upside to these estimates as the full impact of disruptions to deliveries of oil products and natural gas becomes more evident.

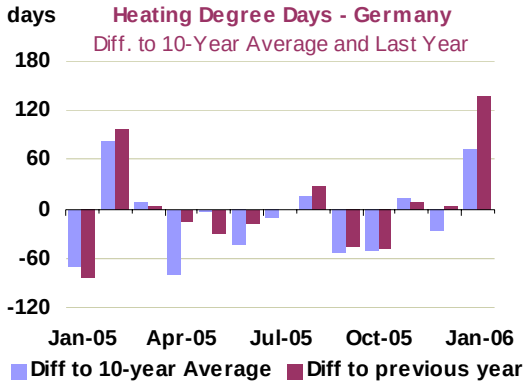
In spite of low temperatures, German deliveries of heating oil were reportedly weak in the first part of January. There may have been a drawdown in consumer inventories because barge deliveries were disrupted throughout the month due to low water levels and ice. As a consequence, January deliveries could be weaker than the low temperatures suggest, followed by a rebound in February. There were also reports of interruptions to barge traffic to parts of the Czech Republic, France, Poland and Switzerland which would similarly imply that some deliveries may shift to February. In part for this reason, OECD Europe demand is adjusted upwards by 140 kb/d in February.

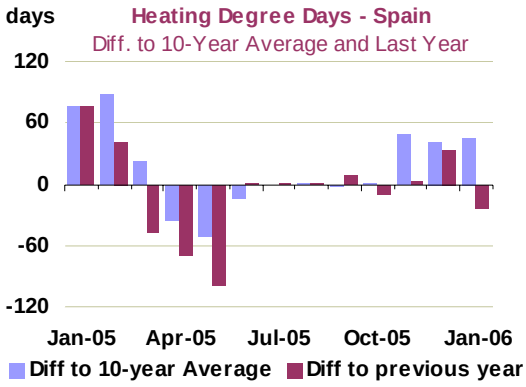
OECD Europe Demand by Product
(million barrels per day)

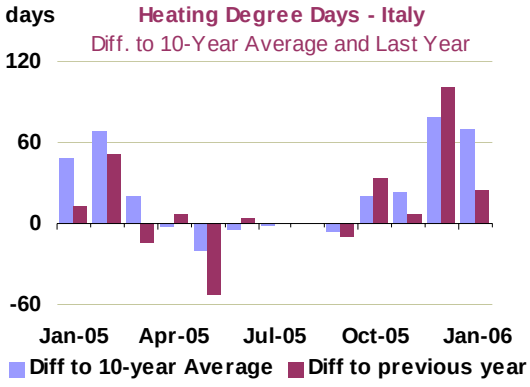
	2004	2005	4Q04	1Q05	2Q05	3Q05	Sep 05	Oct 05	Nov 05	Latest month vs. Oct 05	Latest month vs. Nov 04
LPG & Ethane	1.03	1.00	1.05	1.13	0.91	0.93	1.00	0.93	1.01	0.09	-0.04
Naphtha	1.15	1.17	1.15	1.21	1.15	1.14	1.17	1.22	1.23	0.01	0.10
Motor Gasoline	2.78	2.65	2.72	2.52	2.76	2.75	2.66	2.54	2.54	0.00	-0.16
Jet & Kerosene	1.18	1.24	1.17	1.15	1.24	1.35	1.38	1.24	1.21	-0.03	0.05
Gas/Diesel Oil	5.98	6.09	6.37	6.17	5.79	6.05	6.31	6.04	6.60	0.56	0.14
Residual Fuel Oil	2.02	1.94	2.08	2.12	1.90	1.84	1.86	1.81	1.93	0.12	-0.11
Other Products	1.48	1.48	1.48	1.26	1.55	1.64	1.71	1.53	1.52	-0.01	-0.02
Total Products	**15.62**	**15.57**	**16.02**	**15.56**	**15.30**	**15.71**	**16.10**	**15.31**	**16.04**	**0.72**	**-0.06**

Russia's extremely cold winter has also had an impact on OECD Europe oil product demand, as in January Russia cut its natural gas exports to countries such as Austria, Hungary and Italy. At this point the extent to which these countries turned to natural gas storage and/or substituted oil products is unclear. Some reports indicate that Italy drew upon gas storage to satisfy the bulk of the supply shortfall. However, it is certainly likely that oil consumption increased at the margin throughout the region, which is captured in our upward adjustment to January demand. The demand-side impact of these disruptions could also linger into coming months as consumers rebuild inventories.









It should be noted that the sharp decline in December deliveries indicated by the preliminary data was unanticipated, resulting in a 170 kb/d downward revision to fourth quarter 2005 demand. Temperatures were typically cooler or roughly similar to a year ago, but German heating oil deliveries did not reflect this, declining by some 22.3%. Gasoline demand also remained very weak across key consuming economies. This may in part be attributed to fewer working days in December 2005 than in December 2004, but the decline still exceeded initial expectations.

North America

After a fairly cold December, this January was among the warmest the United States has ever seen, suppressing demand for heating oil, natural gas, fuel oil and electricity. As a consequence, oil product demand is expected to decline by 0.8% year-on-year in January versus a 1.4% increase in December. Gasoline demand grew by some 0.8-0.9% over December and January in the face of rising average monthly prices. It appears that demand for both diesel and jet fuel is recovering following some post-hurricane weakness. Fuel oil demand has weakened somewhat in recent weeks alongside warmer temperatures and lower natural gas prices, reducing the incentive for interfuel substitution.

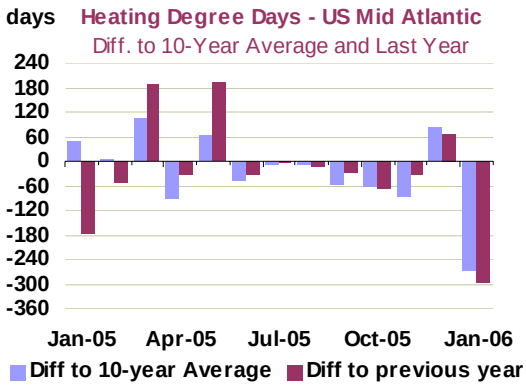
US petrochemical sector demand for oil products as feedstock was extraordinarily weak through the end of 2005. There were certainly other factors at work, including high natural gas prices encouraging producers to leave natural gas liquids in the gas stream, but a substantial portion of the 14.4% year-on-year decline in LPG/ethane demand in the fourth quarter of 2005 may be attributed to the petrochemical sector. Naphtha demand was also down by some 45.4% year-on-year in the fourth quarter.

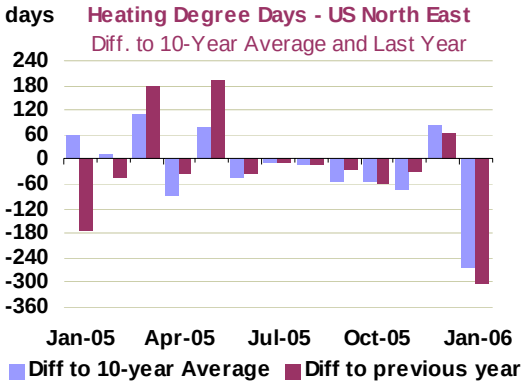
OECD North America Demand by Product
(million barrels per day)

	2004	2005	4Q04	1Q05	2Q05	3Q05	Sep 05	Oct 05	Nov 05	Latest month vs. Oct 05	Latest month vs. Nov 04
LPG & Ethane	2.95	2.79	3.12	3.27	2.54	2.59	2.39	2.46	2.73	0.28	-0.34
Naphtha	0.50	0.44	0.56	0.50	0.47	0.49	0.31	0.25	0.27	0.02	-0.24
Motor Gasoline	10.50	10.61	10.55	10.35	10.74	10.77	10.32	10.45	10.53	0.08	0.07
Jet & Kerosene	1.91	1.93	1.96	1.94	1.89	1.93	1.89	1.91	1.96	0.05	-0.02
Gas/Diesel Oil	4.98	5.07	5.08	5.22	5.00	4.91	5.06	5.04	5.05	0.01	0.01
Residual Fuel Oil	1.51	1.59	1.54	1.60	1.47	1.62	1.65	1.60	1.65	0.05	0.03
Other Products	2.98	3.03	2.89	2.65	3.18	3.18	3.04	3.14	3.15	0.00	0.21
Total Products	**25.34**	**25.45**	**25.69**	**25.53**	**25.30**	**25.48**	**24.66**	**24.84**	**25.34**	**0.49**	**-0.28**

For the most part, the decline in deliveries of petrochemical feedstocks should be temporary. Hurricane-related petrochemical plant closures, pipeline damage and product supply outages are largely responsible for the decline. And in fact, there are indications that demand began to pick up in December. However, some market observers believe that domestic petrochemical product demand could remain weak as buyers that sought out overseas supply options in the wake of Hurricanes Katrina and Rita could choose to remain with these suppliers.

Naphtha demand was weaker than expected in November and December, resulting in a 100 kb/d downward revision to fourth quarter 2005 naphtha demand. This Report has also adopted a more conservative outlook for a 2006 recovery in demand for LPG and naphtha, contributing to a 30 kb/d downward revision to the overall US demand outlook for 2006.





US demand is expected to grow by 1.7% year-on-year in 2006 versus only 0.2% in 2005. Most of the difference may be attributed to a rebound from the temporary impacts of the hurricanes, which affected baseline demand in the third and fourth quarters of 2005. Economic growth is also expected to rebound in the first quarter of 2006 which should support oil product demand growth. Retail sales were reportedly very strong in January.

Canadian demand contracted in the third and fourth quarters of 2005 versus a strong 2004 baseline. On the whole, preliminary indications are that oil product demand declined by some 0.7% in 2005. As in the US, January temperatures were unusually high. Year-on-year demand growth is projected to remain weak through the first half of 2006 before recovering in the latter part of the year as LPG/ethane, naphtha and gasoline rebound. In contrast, Mexican demand has remained strong and demand is projected to grow by 3.4% in 2006.

Non-OECD

China

Preliminary indications are that Chinese apparent demand grew by a lower than expected 3.0% in December. Fuel oil demand rebounded from an extraordinarily weak November, when year-on-year demand fell by 33.8%, but it still declined by some 4.9% year-on-year in December. Overall, with the exception of 'other products' and LPG, preliminary reports of Chinese oil product demand growth came in below expectations. This may be in part attributed to relatively strong baseline December 2004 apparent demand, but it is still somewhat surprising as December 2005 was unusually cold. While China depends in large part on coal for heating, we had expected a larger boost to middle distillate demand at the margin.

China Crude & Product Trade
(thousand barrels per day)

	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Oct 05	Nov 05	Dec 05	Latest month vs. Nov 05	Latest month vs. Dec 04
Net Imports/(Exports) of:											
Crude Oil	2346	2387	2305	2541	2294	2407	2575	2290	2353	63	-312
Products & Feedstocks	661	485	501	375	445	617	608	588	654	66	107
Gasoil/Diesel	43	-19	-6	-27	-40	-3	-4	8	-12	-20	-130
Gasoline	-125	-130	-151	-161	-155	-55	-43	-57	-66	-9	70
Heavy Fuel Oil	506	418	480	395	397	402	380	371	454	83	-12
LPG	201	194	200	179	216	182	179	196	171	-25	23
Naphtha	-33	-35	-49	-67	-25	1	0	-20	24	44	83
Jet & Kerosene	16	11	6	5	2	31	41	26	27	2	29
Other	52	45	22	51	49	59	56	64	56	-8	44
Total	3008	2872	2807	2916	2739	3024	3183	2878	3007	129	-204

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

For 2005 as a whole, apparent demand grew by some 2.5%, which is far below the 15.4% growth recorded in 2004. This decline in growth is driven in part by temporary factors that boosted 2004 demand, including a rebound from the SARS crisis and increased demand for oil in power generation in the face of severe power shortages. Fuel oil demand declined by a preliminary 9.5% in 2005, as coal-fired power generation increased and hydropower generation, which was up by some 19.5% year-on-year, helped to fill the demand/supply gap. Note that excluding fuel oil, apparent demand for petroleum products increased by some 4.3% in 2005.

Because the Chinese economy continues its rapid expansion and baseline 2005 demand growth was relatively weak, oil product demand growth is projected to rebound to 5.8% in 2006. With the addition of new power generation capacity that is fuelled by less expensive alternatives, fuel oil demand should continue to decline by some 3.9%. In contrast, demand for transport fuels is expected to post growth of 7-8%. Automobile sales remain strong, growing by 38.3% year-on-year in December and 21.4% for 2005 overall.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2004	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
LPG & Ethane	633	636	658	3	22	0.4	3.4
Naphtha	684	742	814	58	72	8.5	9.7
Motor Gasoline	1069	1092	1182	23	90	2.2	8.2
Jet & Kerosene	239	245	263	6	17	2.6	7.1
Gas/Diesel Oil	2150	2264	2430	114	166	5.3	7.3
Residual Fuel Oil	829	750	721	-79	-29	-9.5	-3.9
Other Products	828	866	913	37	47	4.5	5.4
Total Products	**6433**	**6597**	**6981**	**163**	**385**	**2.5**	**5.8**

Although China's oil product demand growth is expected to rebound in 2006, there are certainly reasons to be wary. It appears that the same conditions that contributed to product shortages that repressed apparent demand in the third quarter last year are re-emerging. The Chinese government has reinstated tax rebates on exports of gasoline and naphtha. At the same time, the government has not adjusted administered retail prices to match the recent increase in international market prices, thereby enhancing the incentive to export petroleum products. While the government recently cut 2006 oil product export quotas by 25% and has said that it will closely monitor product exports, early reports indicate that first quarter 2006 gasoline exports (which typically accounts for some 25-50% of total product exports) will exceed the fourth quarter of last year.

There were reports of growing shortages of LPG prior to the lunar New Year holiday as the government reportedly ordered suppliers not to raise prices. In contrast to other products, such as gasoline and diesel, the government had previously allowed LPG prices to fluctuate with the market. However, officials are said to have become increasingly concerned about the impact of higher prices on consumers. Retailers are said to be limiting sales, and it seems that some consumers are substituting coal briquettes in place of cleaner burning LPG.

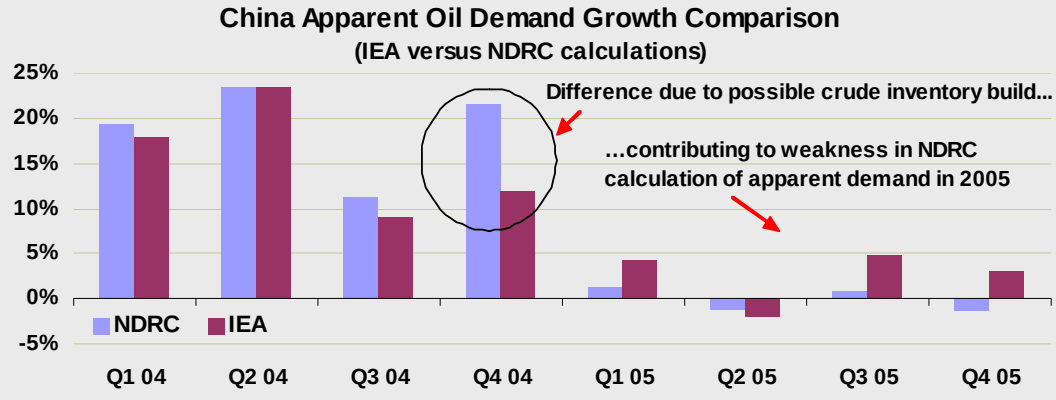
Comparing Apples and Oranges: The Latest Chinese Demand Announcements

China's National Development and Reform Commission (NDRC) and the National Bureau of Statistics (NBS) recently announced that Chinese oil demand fell slightly (0.3-0.5%) in 2005. Officials pointed to the decline as evidence that higher oil prices had an impact on demand and China has made "great strides" towards promoting energy efficiency. The pronouncement came as a surprise, as this Report estimates that Chinese apparent demand actually grew by 2.5% in 2005, albeit well below the 15.4% growth witnessed in 2004. It also, understandably, sparked another round of debate as to the direction and strength of Chinese demand or credibility of Chinese numbers.

Although information accompanying the recent government statements was sparse, it appears that the difference may be attributed to different methods of tallying apparent demand. This Report focuses on China's final oil *product* demand, defining apparent oil product demand as the sum of domestic refinery output and net product imports, with adjustments for estimates of direct crude burning, smuggling and unreported refinery output. Among the advantages of this method is that in addition to following movements in overall crude demand, it allows us to closely track movements in demand for individual products. In contrast, reports in the *People's Daily* and from China's official Xinhua News Agency indicate that the NDRC and the NBS calculate demand as the sum of domestic crude production, net crude imports and net product imports. When crude and product inventory levels remain largely unchanged, these two methods of estimating apparent demand should yield a similar picture. However, if inventories change significantly, estimates of demand growth may diverge, as appears to be the case here.

Although Chinese inventory data are not publicly released, crude production and crude import data (as well as anecdotal reports) suggest that crude inventories increased substantially in the fourth quarter of 2004. Crude output increased by 3.0% and net crude imports were 45.2% higher than the same period in 2003. On the whole, crude deliveries increased by some 17.1%. At the same time, refinery throughput increased by only about 8.7%, implying a fourth quarter 2004 crude stock build.

Following the 2004 year-end stock build, crude demand appears to have stagnated. Given the crude-focused accounting method favoured by the NDRC, it is not particularly surprising that the NDRC's measurement of 2004 apparent demand growth would be stronger than this Report's. At the same time, the NDRC's methodology would yield weaker apparent demand growth in 2005, as shown in the figure below.



Looking forward, estimates of apparent demand growth will continue to vary if different accounting methods are used. Consequently, the growth estimates of this Report and the NDRC may diverge again. Until stock data are published, there will continue to be uncertainty. Clearly it is becoming increasingly important to account for changes to Chinese oil inventories in a timely manner, especially as China begins to fill its strategic government storage.

Other Non-OECD

FSU apparent demand (crude production minus net crude and product exports) has been adjusted upwards for 2004-2005, partly to correct for double counting of some Russian rail exports. The impact of the adjustment to historical data was most pronounced in the latter half of 2005. On the whole, FSU apparent demand is revised up by some 10 kb/d for 2004 and 110 kb/d in 2005. These adjustments are in part extended through the 2006 projections.

Most parts of the FSU experienced a period of extraordinarily cold weather in January and early February that disrupted crude output and both crude and product exports. Low temperatures contributed to a widespread spike in the consumption of oil products, which was exacerbated by natural gas shortages that further boosted the demand for substitute oil products. Demand for natural gas and electricity was reported to be about 40% higher than normal in the Moscow area, increasing the demand for fuel oil in power generation. There were also reports that additional volumes of diesel were being used in power generation. It appears that January exports will not be affected by the weather induced demand increase, but February (and possibly March) exports will be affected. Lukoil reportedly cut product exports to redirect supplies to the domestic market, and other refiners are expected to act in similar fashion.

India's oil demand remains very weak in contrast to its thriving economy. Demand contracted by a preliminary 0.8% year-on-year in December. This was partly due to continued substitution of natural gas for naphtha in industrial use and fertilizer production, a trend which began about 18 months ago. The demand for fuel oil and 'other products' also declined in December.

India Crude & Product Trade
(thousand barrels per day)

	2003	2004	4Q2004	1Q2005	2Q2005	3Q2005	Sep 05	Oct 05	Nov 05*	Latest month vs. Oct 05	Latest month vs. Nov 04
Net Imports/(Exports) of:											
Crude Oil	1863	1945	1742	1969	1894	1965	2070	1846	1894	48	223
(by Public Oil Cos)	1243	1158	1000	1133	1116	1112	1273	1275	1211	-64	323
Products & Feedstocks	-152	-176	-222	-82	-92	-116	-134	-197	-198	0	119
Gasoil/Diesel	-119	-139	-162	-89	-108	-135	-193	-223	-210	13	-27
Gasoline	-72	-75	-80	-53	-39	-35	-19	-4	-21	-16	60
Heavy Fuel Oil	5	-6	-20	-4	10	7	-7	-33	-17	16	38
LPG	55	86	128	95	74	98	125	138	139	1	1
Naphtha	-1	-7	-25	-15	-39	-28	2	-9	-28	-19	14
Jet & Kerosene	-22	-47	-74	-34	-5	-33	-53	-74	-78	-4	24
Other	1	12	12	17	15	10	11	8	18	10	8
Total	1712	1769	1520	1887	1801	1849	1936	1649	1696	47	341

* Preliminary

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

Overall, Indian demand expanded by only approximately 0.7% in 2005, versus economic growth of some 7.5%. The slow demand growth may be attributed in part to a relatively high 2004 baseline, where oil demand expanded by 5.6%, and also to increases in retail prices. Demand growth is projected to rebound to 1.9% in 2006, still relatively low in contrast to projected GDP growth of some 8.1%. Demand for naphtha and fuel oil is expected to remain weak. Also, economic growth is weighted towards the service sector, which should help hold down growth in the demand for oil.

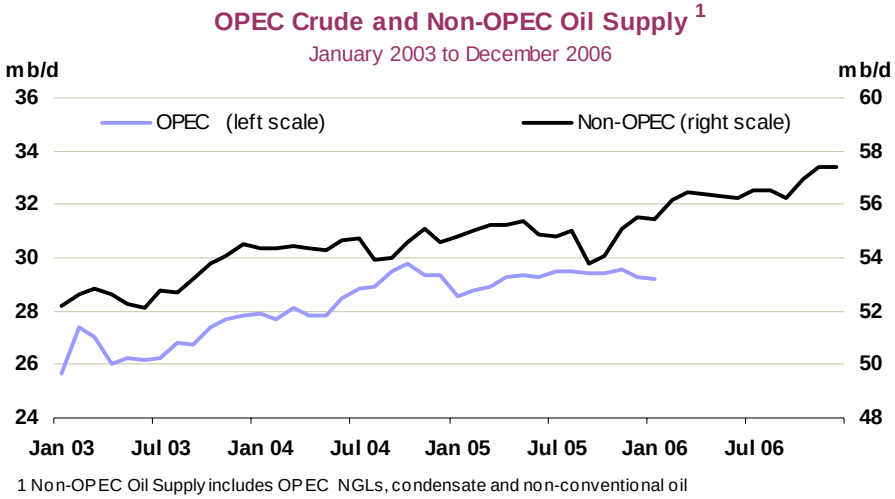
It is clear that the substantial reduction/elimination of product price subsidies and a corresponding increase in retail prices had an impact on oil product demand in many areas of Southeast Asia. In **Thailand**, demand for key petroleum products decreased by some 4.7% in December and anecdotal reports suggest that **Indonesian** demand was down as well.

Iraqi demand has been revised down by some 10 kb/d for 2005 and 30 kb/d for 2006. Domestic refinery output has fallen and measures have been taken to curb consumption growth and limit imports, including raising prices and imposing alternate days for car travel. These measures are expected to contain demand growth in the near term.

SUPPLY

Summary

- **World oil supply** fell by 135 kb/d in January compared to a downward-revised December and averaged 84.6 mb/d. Weather related disruptions to FSU, North Sea and Australian production, as well as ongoing interruptions to supply from Nigeria and Iraq, cut supplies by 450 kb/d. However, these were offset in part by increases from North and Latin America, Asia and Africa.
- A **year-on-year comparison** shows global supply in January a healthy 1.25 mb/d above January 2005 levels. However, January 2005 saw a sharp drop in OPEC and Russian production, which distorts the picture somewhat. Nonetheless, the trend towards stronger growth in non-OPEC supply in 2006 is expected to persist.
- **Shut-in production around the US Gulf of Mexico** following last year's Hurricanes Katrina and Rita was an estimated 570 kb/d in January, and shut-ins for September-December were revised down modestly. Outages affecting Louisiana state production and NGL are running below earlier assessments. However, with shut-in production in the Federal waters of the Gulf still at 375 kb/d on 25 January, this Report revises up expected total outages through mid-year 2006. These are now assumed at 415 kb/d in February and an average 260 kb/d for the period through June.
- **Non-OPEC supply** for 2005 is revised up by 30 kb/d while 2006 production is revised up by 20 kb/d. Annual averages now amount to 50.15 mb/d and 51.45 mb/d respectively. Growth in 2006 comes mainly from the FSU, Africa and North and Latin America. In addition to non-OPEC growth, OPEC NGL and non-conventional supply also rises from 4.75 mb/d in 2005 to 5.05 mb/d in 2006.
- **OPEC crude supply** averaged 29.2 mb/d in January, down 65 kb/d from December. Supply from the UAE fell by 80 kb/d due to gas plant maintenance. Net Iraqi supply fell by 40 kb/d to 1.5 mb/d with disrupted southern exports and absent tanker liftings from Ceyhan. Nigerian supply also fell by 45 kb/d amidst ethnic unrest. Peak production losses from the offshore EA and the Forcados system reached 220 kb/d but were offset by other offshore increases. An 80 kb/d rise in conventional crude in Venezuela countered falling syncrude production due to plant maintenance.
- **OPEC spare production capacity** was a nominal 2.7 mb/d for January, but 1.4 mb/d on an effective basis excluding Indonesia, Iraq, Nigeria and Venezuela. As noted last month, OPEC sustainable capacity should rise by 1.0 mb/d during 2006, with up to 0.5 mb/d due by mid-year.
- **The 'call on OPEC crude and stock change'** for fourth quarter 2005 is revised down by 0.4 mb/d to 29.2 mb/d, on signs of weaker demand from OECD Europe, China and Asia. The first quarter 2006 call is revised up by 0.2 mb/d to 29.4 mb/d due to lower non-OPEC supply. Overall, 2006's projected call remains unchanged at 28.6 mb/d, up by 200 kb/d versus 2005. A 700 kb/d miscellaneous to balance item however implies potential future upward revisions to the call.



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 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 is estimated at 29.2 mb/d in January, a drop of 65 kb/d from December. Supply from the UAE fell by 80 kb/d with gas plant maintenance affecting the Murban stream. This however is expected to be reversed in February. Net Iraqi supply fell by 40 kb/d to 1.5 mb/d amidst disrupted southern exports, an ongoing absence of tanker liftings from Ceyhan and continued disruption to refinery operations. Nigerian output also fell by 45 kb/d, as production from the offshore EA field and the Forcados system was curtailed by ethnic unrest. However, as in December, the net loss in Nigerian supply was lessened by rising deepwater output. An 80 kb/d rise in conventional crude supply in Venezuela countered an associated fall in synthetic crude production due to plant maintenance. Saudi output remained steady at 9.5 mb/d, with Iran estimated up 30 kb/d, at 3.9 mb/d.

A thin margin of OPEC spare capacity continues to reinforce bullish market sentiment, with a notional level of 2.7 mb/d estimated for January, but a more marginal 1.4 mb/d on an effective basis if Indonesia, Iraq, Nigeria and Venezuela are excluded (all of which could struggle to boost supply rapidly). Sustainable capacity is however expected to increase by 1.0 mb/d during 2006, reaching around 32.8 mb/d on a net basis by end-year. New supplies (albeit not entirely incremental on a net basis) in the next few months will come from:

- Saudi Arabia, with peak 300 kb/d of Arab Light crude from phase three of the Haradh project;
- Nigeria, with 50-70 kb/d from the Bonga field and up to 150 kb/d from Erha from March;
- Abu Dhabi, where expansion at onshore fields boosts Murban supply by 100 kb/d in 1Q;
- Iran, with an incremental 15-20 kb/d from the offshore Doroud field;
- Libya, as pipeline completion boosts Elephant field and block NC-186 supply by 80 kb/d;
- Algeria whose Bir Berkine complex could add 25 kb/d from April

Allowing for mature field decline, and phased build up from some of the new projects, up to 0.5 mb/d of new capacity should be available on a net basis before mid-year, much of this being relatively light, sweet crude compared to baseload OPEC supply.

OPEC Crude Production
(million barrels per day)

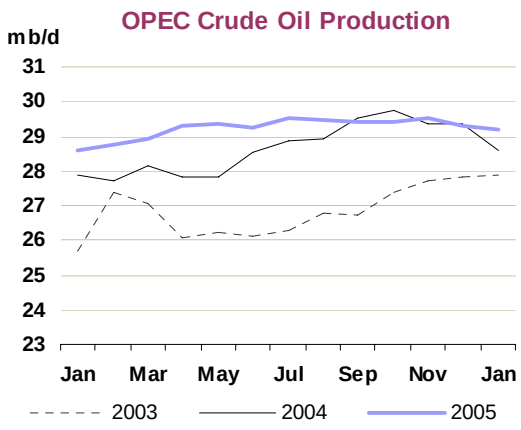
	1 July 2005 Target	January 2006 Production	Sustainable Production Capacity[1]	Spare Capacity vs January 2006 Production	Production vs. Target
Algeria	0.89	1.36	1.37	0.01	0.47
Indonesia	1.45	0.92	0.98	0.07	-0.54
Iran	4.11	3.92	4.00	0.08	-0.19
Kuwait[2]	2.25	2.52	2.60	0.08	0.27
Libya	1.50	1.65	1.65	0.00	0.15
Nigeria	2.31	2.42	2.60	0.19	0.11
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	2.48	2.65	0.18	0.03
Venezuela[3]	3.22	2.13	2.20	0.07	-1.09
Subtotal	**28.00**	**27.71**	**29.38**	**1.67**	**-0.29**
Iraq		1.50	2.50	1.00	
Total		**29.21**	**31.88**	**2.67**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.35)*	

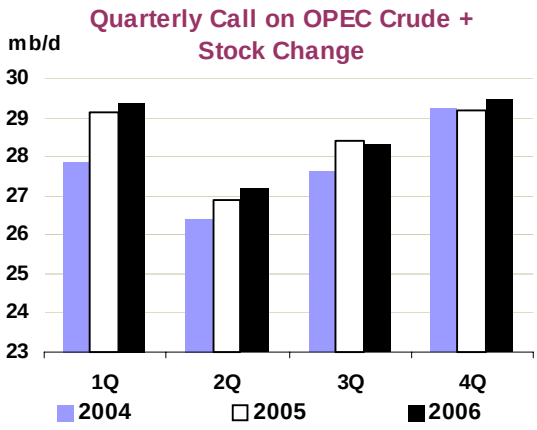
1 Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Excludes upgraded Orinoco extra-heavy oil which averaged 480 kb/d in January

OPEC's 31 January meeting in Vienna resulted in no change to the 28.0 mb/d production target for the OPEC-10 (excluding Iraq), which has been in place since July 2005. This Report assesses January OPEC-10 output to have been 27.7 mb/d. The post-conference communiqué noted what were seen as comfortable commercial stock levels in the OECD and an apparently resilient global economy. The continuing rise in prices was attributed to refining bottlenecks and other non-fundamental factors, which may in part have been a reference to concerns over future supply from Iran and Nigeria. Perhaps more importantly, the tendency in recent years for declining second quarter oil products demand to mask a higher underlying requirement for OPEC crude was noted.

The decision to maintain output levels came as no surprise, given that prices for light sweet benchmark crude in the week preceding the meeting averaged around $65/bbl. With continued question marks over potential disruptions to supplies from Nigeria and Iran, ongoing shortfalls in non-OPEC supply, and a drop in observed OPEC output of some 350 kb/d since November (not least due to Iraq), any further official cut in supply might have been seen to be overly bullish by an already volatile market. Post-meeting comments suggested the decision to leave production unchanged was unanimous, in contrast to pre-meeting statements in favour of curbing output from Iran and Venezuela. Some divergence in tone surrounding likely action at the next (ordinary) meeting on 8 March materialised however. Suggestions by Iran, Venezuela and Libya that a curb on production limits might again be up for consideration contrasted with those from the OPEC President and from the Saudi Oil Minister that production levels could remain unchanged for the second quarter, or indeed for 2006 as a whole.

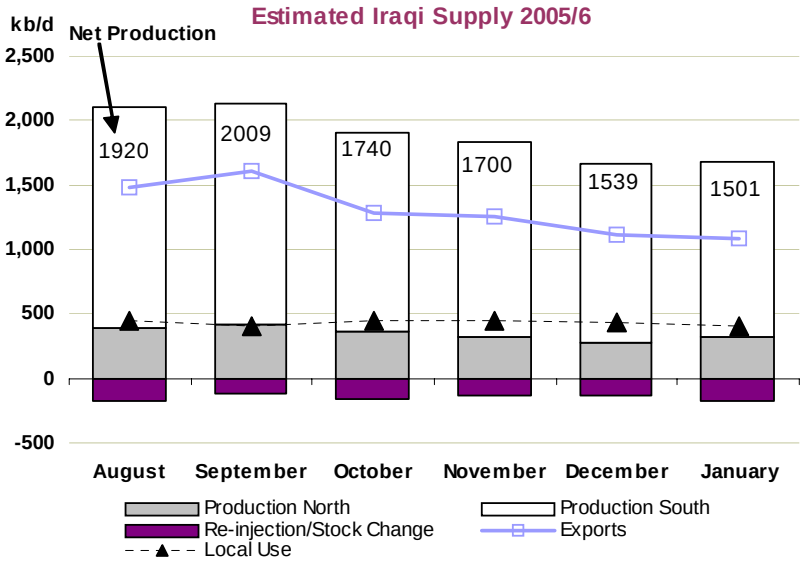
Some analysts have also noted an apparent upward shift in Saudi Arabia's thinking regarding price targets. Pre-meeting comments by the Saudi Oil Minister suggested that WTI in a $50-$60/bbl range would be satisfactory to both producers and consumers. More recently he cited investment costs for exploration and production as $45-$50/bbl in the current environment (which seems high, except possibly for frontier areas and some non-conventional supply).





Net Iraqi supply, measured in terms of exports and domestic crude use, levelled off close to 1.5 mb/d in January. The drop of 40 kb/d from December levels represented a slowing of the rate of decline evident since September, when net output last breached 2.0 mb/d. Exports comprised 1.08 mb/d via the southern ports, minor volumes around 10 kb/d cross-border into Syria and, for the third month running, zero from Ceyhan in Turkey. Domestic use is assessed at 410 kb/d, with 340 kb/d run in the refineries and 70 kb/d used for direct burn in power generation. February refinery operations could increase, as December/January levels were depressed by outages (un-scheduled and scheduled respectively) at Baiji and Basrah.

Northern area crude production of over 300 kb/d was reported briefly to have shut down after a 2 February attack on a storage facility near Kirkuk. Crude is normally held in storage before being sent north in batches by pipeline to Ceyhan in Turkey. However, attacks on pipelines and pumping facilities from 25 January onwards had already cut off shipments to Ceyhan. Deliveries earlier in January (averaging 60 kb/d over the month), took storage at the Turkish port to some 3 mb. These volumes are not counted in this Report's net January supply figure, but will be counted as exports whenever tanker or pipeline shipments *from Ceyhan* are made. In the past, Iraq has tended to wait until at least 5 mb is held in storage at Ceyhan before offering crude for sale.



In the south of Iraq during January weather related loading delays and a shortage of tug boats severely restricted tanker liftings at the beginning and end of the month. Just over 33 mb of exports were loaded in January, or 1.08 mb/d. This is compared to scheduled term exports for Basrah Light crude in the first half of 2006 of 1.57 mb/d.

Iranian Oil Supply Concerns Remain Hypothetical For Now

The International Atomic Energy Agency (IAEA) voted on 4 February to refer Iran to the UN Security Council on concerns over possible military application of its nuclear facilities. Iran has insisted that its nuclear programme is aimed solely at electricity generation. However, the country's President responded to the IAEA vote by ordering a halt to short notice inspections by the IAEA of Iran's nuclear installations. Discussion of the issue within the Security Council will be deferred until a detailed report is delivered by the IAEA in March. Furthermore, any move towards sanctions against Iran could be further delayed, as two out of five permanent members of the Security Council, Russia and China, presently oppose such action. Russia has offered to cooperate with Iran in producing enriched uranium for the latter's power generation programme within Russia, while ensuring none is diverted to weapons related-uses. Iran has so far reacted cautiously to the proposal.

Immediately after the OPEC Vienna meeting, the Iranian Oil Minister played down the prospect of Iran unilaterally curbing oil production or exports in the event of a worsening political situation surrounding the nuclear issue. The main recipients of Iranian crude exports totalling 2.5 mb/d include some 650 kb/d sold into southern Europe, 500 kb/d to Japan, 270 kb/d to China, and 200 kb/d each to Korea and India. Medium gravity, high sulphur Iran Heavy and Iran Light grades account for 80% of Iranian exports. As such they are similar in quality to other Middle Eastern grades, giving other OPEC producers the potential to offset any hypothetical future disruption in Iranian exports. However, the OPEC President indicated that such action would be a decision for individual OPEC producers, rather than OPEC itself. The IEA has also reiterated that strategic stocks remain another option, if necessary, for covering potential future supply disruptions.

Subsequent reports in the Iranian and Arab press cite political calls within Iran for shipping in the Persian Gulf to be impeded in the event of UN sanctions against Iran. There is no indication that these calls carry any Iranian government stamp of approval. Nonetheless, the Straits of Hormuz between Oman and Iran handle 17 mb/d of crude tanker traffic. With the navigable shipping lanes involved being only 10 km across, the Straits represent the most significant choke point for world oil supplies in the event of any disruption. Alternative routes to market for Arab Gulf oil denied access to the Straits involve pipeline shipment across Saudi Arabia to the Red Sea or via Iraq to the Mediterranean but would provide nothing like a full offset. As noted above however, both UN sanctions and disrupted Iranian supply can be viewed as a hypothetical, rather than an imminent, prospect.

Iranian supply came into focus in January and February, although more on speculation over the months to come than actual physical developments in January. For the fourth month in succession, crude supply was assessed near to 3.9 mb/d, comprising 2.5 mb/d of exports and 1.4 mb/d of local consumption. Estimated production remains below capacity of 4.0 mb/d. This is in part due to a combination of technical problems at the offshore Nowruz field and marketing constraints for crude from Nowruz and Soroush, which is heavy/sour and high in impurities. There are reports that some 15 mb of Soroush and Nowruz crude has been stored in tankers offshore due to a lack of buyers. If so, Iranian wellhead production could be running correspondingly ahead of this Report's assessment of supply, which derives from the sum of exports and local refinery use.

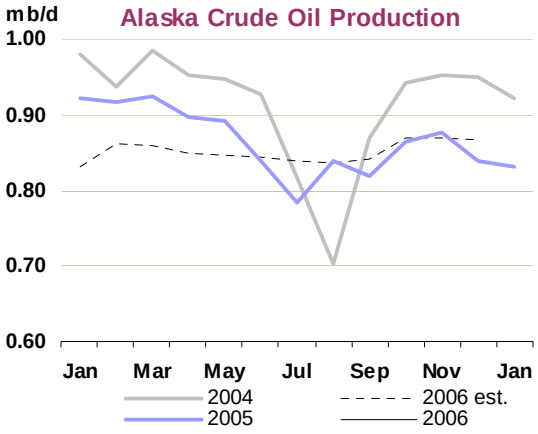
Concerns over **Nigerian** supply vied for market prominence with those over Iran in January and early February. This Report noted last month how an early-January resumption of Bonny Light supply was followed at mid month by shut-ins affecting EA and Forcados crude. Security and technical problems at the former and pipeline sabotage affecting the latter led, at peak, to outages amounting to some 220 kb/d. However, on a net basis Nigerian production for January was down by a lesser 45 kb/d and averaged just over 2.4 mb/d. Rising supply from the deepwater Bonga field, and resumed supply from 27 January onwards at EA, helped to offset Forcados supplies which were still under *force majeure* during the first week of February. Delays in pipeline repairs have kept 106 kb/d of Forcados production shut-in.

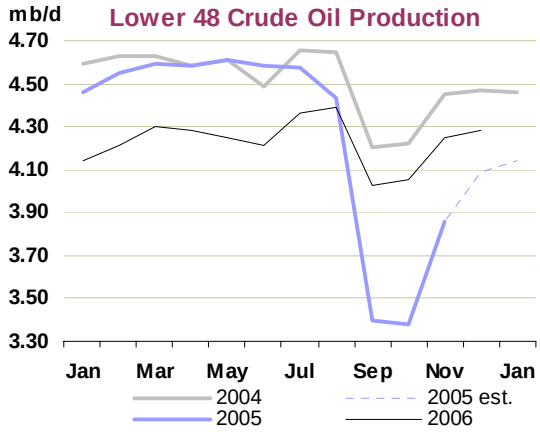
Despite the release on 30 January of service personnel taken hostage earlier in the month, ongoing security concerns have caused international companies to evacuate non-essential staff. Violent clashes have escalated and there were unconfirmed reports of attacks during January also on Total, Agip and Chevron facilities. The Movement for the Emancipation of the Niger Delta, which claims responsibility for January's kidnappings, has said that it aims to cut February Nigerian exports by 30%, which would amount to some 700 kb/d at recent levels. Many analysts foresee an escalation of attacks on producing and export facilities around the Niger Delta (which accounts for 75% of Nigeria's 2.6 mb/d production capacity) in the run up to elections in 2007.

OECD

North America

US – January Alaska actual, others estimated: Monthly data for November and provisional weekly indicators for December and January point to slightly higher than expected US supply overall. Fourth quarter US crude supply is revised up by 30 kb/d to 4.64 mb/d and NGL supply by some 20 kb/d to 1.62 mb/d. Although there is a lag before state-specific data become available, it would appear that production is running higher in a number of areas, including Louisiana, California and other Lower 48 states, than anticipated previously in this Report. In part, this reflects a response at the margin to high prices and also a less extreme impact from the Hurricane season than had been assumed for onshore and state offshore production in Louisiana. Upward revisions of a combined 45 kb/d for these areas are carried through the 2006 forecast.





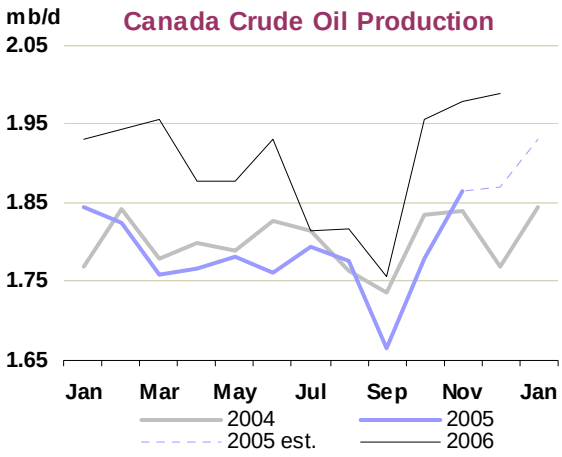
Partly offsetting these upward revisions are the continued outages affecting the Federal offshore Gulf of Mexico (GOM). In all, GOM supply is revised down by 25 kb/d for 2006, to just under 1.3 mb/d. Data from the Minerals Management Service through 25 January suggest average monthly outages of some 390 kb/d, compared to this Reports earlier assumption of 350 kb/d. Some 375 kb/d of oil

production (25% of pre-storm levels) and 1.6 bcfd of natural gas (17% of pre-storm levels) remained shuttered on 25 January. Assumed total outages for first-half 2006 resulting from Hurricanes Katrina and Rita have been adjusted in line with the most recent data for GOM, Louisiana and NGL supply. From December's 660 kb/d, outages fall to 570 kb/d for January, 420 kb/d in February with a tail of disruption of some 260 kb/d running through June. Heavier damage to still-shuttered facilities and re-start deferrals are seen slowing progress in reactivating output before the onset of the next hurricane season.

Alaskan supply for 2006 is revised up slightly to 850 kb/d. Production from ConocoPhillips' Alpine field is averaging 130 kb/d, higher than anticipated for early-2006 in this Report. Satellite field developments will potentially add a further 10-20 kb/d in late-2006 and 2007. Total US oil supply is now seen averaging 7.31 mb/d in 2006 compared to 7.29 mb/d in 2005 and 7.66 mb/d in 2004. Conservative assumptions have been employed regarding GOM supply recovery and likely storm outages in 2006, so that some upside potential is possible. In contrast, a heavier than average hurricane season again in 2006 would present the major downside risk to the forecast.

Canada – Newfoundland December actual, others November actual: Canadian oil supply in November averaged 3.3 mb/d, comprising 1.9 mb/d of conventional crude, 0.7 mb/d of synthetic crude and 0.7 mb/d of NGL. The total was 100 kb/d higher than this Report's earlier estimate, largely due to higher syncrude supply. Adjustments for 2006 also focus on synthetic crude output, revised up by 20 kb/d from last month. Canadian oil supply, after stalling at 3.05 mb/d in 2005, is now expected to resume growth to reach nearly 3.3 mb/d in 2006.

Suncor and Shell synthetic crude production levels have been revised up in this Report, based on fourth quarter production and latest plans for 2006. Shell announced an eight week outage for the Scotford upgrader and Muskeg River mine for the second quarter. This Report earlier assumed a 4Q 2006 outage, so late-2006 output now looks stronger at the expense of 2Q supply.



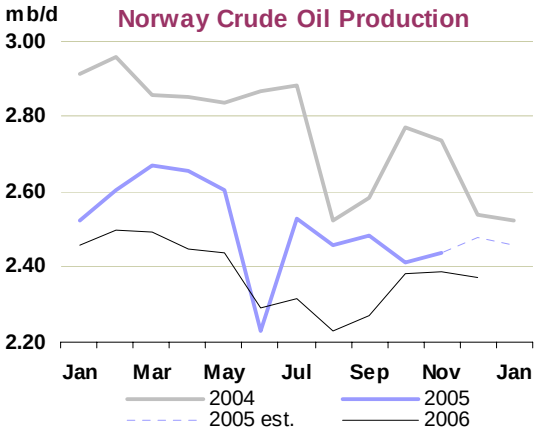
There were renewed indications of cost increases, partly due to rising natural gas costs, accruing to oilsands operations from company fourth quarter results. Although far from uniform, increases of up to 30% versus year ago were recorded. Despite this, unit operating costs appeared to remain well below $25/bbl. Moreover, operators also reported sharply increased profits due to higher prices. Interest in oilsands development has escalated in the light of higher perceived future price trends. The Canadian Association of Petroleum Producers (CAPP) sees active projects boosting west Canadian oil output by 1.4 mb/d in the next ten years and to this end there has been a spate of proposals for pipeline expansions and reversals to feed this output to the US Gulf and Canadian Pacific coasts.

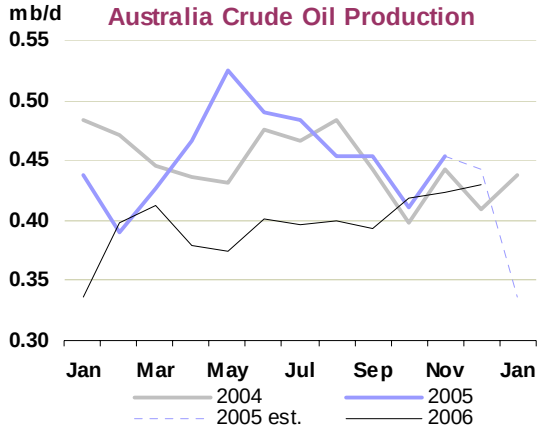
North Sea

Norway – November actual, December provisional: Total November oil production increased by 120 kb/d from October, although crude output remained broadly level at 2.45 mb/d, while NGL and condensate increased by 95 kb/d to a combined 500 kb/d. Provisional output data for December show a modest rise in crude but an offsetting dip in gas liquids supply. Loading schedules and reported field outages suggest that total oil supply may have remained around 2.9 mb/d in January, although a recovery closer to 3.0 mb/d is expected for February. January's unscheduled downtime included:

- a fire at the Asgaard B gas platform, which impeded condensate supply from the Mikkel and Kristin fields (recently producing around 25 kb/d combined) for 5 days from mid-month;
- adverse weather conditions which cut production by some 50% at the 100 kb/d Norne field;
- a gas leak at the 35 kb/d Visund field which will shut in production until April.

These outages, allied to now-lower government forecasts for 2006 Norwegian oil supply, have caused a 40 kb/d downward adjustment to this Report's estimate of production. This now averages 2.91 mb/d in 2006 versus 2.96 mb/d in 2005 (with crude comprising 2.4 mb/d and 2.5 mb/d of the 2006 and 2005 totals respectively).





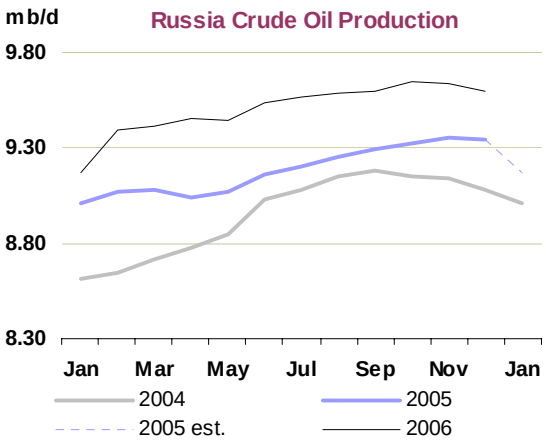
Pacific

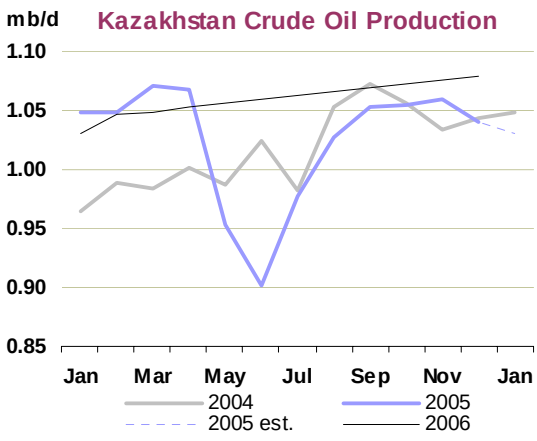
Australia – November actual: Contrasting developments affecting the offshore west coast Carnarvon Basin underpin changes in fourth quarter 2005 and first quarter 2006 Australian production. November/December supply is now assessed some 30 kb/d higher than previously estimated with indications of higher production from the Cossack field. However, shut-in production due to cyclones Clare and Daryl in January averaged 110 kb/d for the month as a whole, notably affecting the Mutineer and Cossack fields. It was subsequently reported that Cossack will remain offline until mid-February while storm damage is repaired. In addition, operator Santos has now downgraded expected 2006 production from Mutineer to 60 kb/d from an earlier estimate of 85 kb/d. Production reached the original plateau level around mid-2005 but subsequently fell, with water encroachment reported as one potential cause.

Australian production is revised down by 15 kb/d for 2006 as a whole, suggesting a modest annual dip in crude and NGL production from 545 kb/d in 2005 to 510 kb/d this year. Crude oil's decline (from 455 kb/d in 2005 to 395 kb/d in 2006) is moderated by new field starts. These include Enfield in the Carnarvon Basin and elsewhere at Baskar Manta, Puffin and Cliff Head.

Former Soviet Union (FSU)

Russia – December actual, January provisional: December production is revised down by 30 kb/d compared to provisional estimates, due to a sharper than expected seasonal drop in output from the Sakhalin 2 project. January wellhead production was further hampered by record low temperatures affecting operations, notably in western Siberia. Power outages and shut-in production at fields with high water cut saw total Russian oil output drop to 9.47 mb/d, 170 kb/d below December. Early-February production data and a modest rise in temperatures suggest a potential rise in February production. The impact of January's drop therefore has a minimal impact upon 2006 supply overall.





In comparison with published company production plans for 2006, this Report continues to err on the side of caution. Nonetheless, Russian output (crude and condensate) in 2006 is seen averaging 9.8 mb/d after 9.5 mb/d in 2005. Growth of 3.5% represents a modest acceleration from the sluggish 2.7% seen in 2005. One third of projected growth derives from the Sakhalin 1 project, which entered operation in October 2005 and should attain output of 200 kb/d by late-2006. As noted previously, there are signs that output from assets constituting the former Yukos and those of Sibneft, which acted as the main drag on late-2004 and 2005 production levels, are now staging a recovery. Indeed, Yukos stated in January that it aims to hold production flat in 2006. Until several months of actual Yukos production data become available, this Report assumes decline continuing at a similar monthly pace as seen during 2005. This could clearly prove overly pessimistic, notably as output flattened off in the final few months of 2005 after earlier steep decline. Further back tax claims against Yukos announced in December may stifle field investment in the short term. Conversely however, a possible forced buy-out of Yukos' remaining assets might eventually result in stronger upstream performance for 2006 as a whole than this Report's current assumption, which is based more on 2005 outturn.

FSU Net Exports of Crude & Petroleum Products

(million barrels per day)

	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Oct-05	Nov-05	Dec-05	Latest month vs. Nov-05	Latest month vs. Dec-04
Crude											
Black Sea	2.20	2.27	2.22	2.38	2.30	2.23	2.24	2.25	2.18	-0.07	-0.10
Baltic	1.51	1.59	1.64	1.61	1.57	1.55	1.53	1.52	1.60	0.08	0.15
Artic/FarEast	0.25	0.19	0.19	0.19	0.22	0.17	0.21	0.15	0.15	0.00	-0.13
Crude Seaborne	3.96	4.05	4.04	4.18	4.08	3.95	3.98	3.92	3.94	0.02	-0.07
Druzba Pipeline	1.10	1.15	1.13	1.10	1.14	1.23	1.17	1.25	1.26	0.01	0.12
Other Routes	0.23	0.25	0.24	0.26	0.24	0.26	0.24	0.27	0.28	0.01	0.08
Total Crude Exports	5.29	5.45	5.41	5.54	5.46	5.44	5.39	5.45	5.48	0.04	0.13
Of Which: Transneft	3.76	4.20	4.01	4.26	4.26	4.32	4.19	4.37	4.41	0.04	0.64
Products											
Fuel oil	0.90	0.93	0.78	0.91	1.02	1.04	0.97	1.04	1.11	0.08	0.17
Gasoil	0.84	0.87	0.89	0.80	0.85	0.95	0.93	0.87	1.05	0.18	0.21
Other Products	0.46	0.58	0.58	0.56	0.58	0.60	0.64	0.57	0.58	0.01	0.15
Total Product	2.19	2.38	2.25	2.27	2.45	2.58	2.53	2.47	2.74	0.27	0.53
Total Exports	7.48	7.83	7.66	7.81	7.91	8.02	7.92	7.92	8.22	0.31	0.66
Imports	0.01	0.02	0.01	0.01	0.02	0.02	0.02	0.03	0.02	-0.02	0.00
Net Exports	7.47	7.81	7.64	7.80	7.89	8.00	7.91	7.88	8.21	0.32	0.66

Sources: Petro-Logistics, IEA estimates

FSU net exports have been adjusted downwards for 2004-2005 to reflect improved information on Russian rail exports. On the whole, FSU crude exports are revised down minimally (<5 kb/d) for 2004 and by 70 kb/d on average for 2005. December FSU net exports increased by over 300 kb/d versus November, with gasoil and to a lesser extent residual fuel oil leading the increase. Again, a rise in products exports at the expense of crude reaffirmed recent trends as regards the relative attractiveness of products vis a vis crude from an export duty standpoint. Tanker loading and transit delays affecting Black Sea ports, the Turkish Straits and the CPC pipeline, plus surging domestic power consumption due to plunging temperatures, are likely to have choked back on January exports. Overall January crude and product export levels are estimated to have run some 200-300 kb/d below December. Crude export schedules from Transneft for seaborne liftings in Febraury show no increase from January levels.

Kazakhstan – December actual: Full year oil production data for 2004 and 2005 released in January result in upward revisions of 5 kb/d and 35 kb/d respectively. Modest upward adjustments are made to Tengiz field output but the main adjustments come from smaller producers. These adjustments also feed through to boost absolute production levels for 2006 by 25 kb/d. The upward adjustment for 2006 could have been higher if not for cold January weather. This, in addition to earlier processing unit problems, curbed liquids output at the Karachaganak field (not shown in the chart above) by at least 30 kb/d from already-low December levels.

Total liquids production is seen edging higher by some 60 kb/d in 2006 to 1.33 mb/d (similar growth to 2005). More substantial growth from Kazakhstan will be dependent on key decisions on export capacity expansion, notably the doubling of present 560 kb/d capacity at the CPC pipeline. This is currently stalled due to disagreements on terms between Russia and other pipeline shareholders.

Other Non-OPEC

Revisions to Other Non-OPEC Estimates

Weaker than anticipated 2005 performance from **Mexico** and latest indications on likely 2006 outturn from the Cantarell field prompt a 35 kb/d downward adjustment to this year's supply. Oil production is now seen edging lower to 3.74 mb/d in 2006. Production from **Turkmenistan** is revised up by 20 kb/d for 2006 based on both government and foreign operator plans. Higher baseline NGL supply from **Argentina** of 15-20 kb/d for 2004 and 2005 is extended into a 30 kb/d upward revision for 2006. This is offset elsewhere in Latin America by downward adjustments to forecast production for **Brazil** and **Ecuador.** Delayed start-up from Blocks 3 and 7 in **Sudan** knock 10 kb/d and 30 kb/d off estimated 2005 and 2006 supply respectively.

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	14.07	14.30	0.23	14.09	14.32	0.22	0.02	0.02	0.00
Europe	5.66	5.40	-0.26	5.64	5.36	-0.28	-0.02	-0.03	-0.02
Pacific	0.58	0.56	-0.02	0.59	0.55	-0.04	0.00	-0.02	-0.02
Total OECD	**20.31**	**20.26**	**-0.05**	**20.32**	**20.23**	**-0.09**	**0.01**	**-0.03**	**-0.04**
Former USSR	11.60	12.13	0.53	11.64	12.21	0.57	0.04	0.07	0.03
Europe	0.16	0.15	-0.01	0.16	0.15	-0.01	0.00	0.00	0.00
China	3.63	3.62	-0.01	3.62	3.62	0.00	-0.01	0.00	0.01
Other Asia	2.73	2.81	0.08	2.73	2.82	0.09	0.00	0.01	0.02
Latin America	4.27	4.49	0.22	4.28	4.48	0.21	0.01	0.00	-0.01
Middle East	1.87	1.81	-0.05	1.86	1.81	-0.05	-0.01	-0.01	0.00
Africa	3.70	4.25	0.55	3.69	4.22	0.53	-0.01	-0.03	-0.02
Total Non-OECD	**27.96**	**29.27**	**1.31**	**27.97**	**29.32**	**1.35**	**0.02**	**0.05**	**0.03**
Processing Gains	1.86	1.90	0.04	1.86	1.90	0.04	0.00	0.00	0.00
Total Non-OPEC	**50.12**	**51.43**	**1.30**	**50.15**	**51.45**	**1.29**	**0.03**	**0.02**	**-0.01**

OMR = Oil Market Report

OECD STOCKS

Summary

- **OECD total industry oil inventories** declined by a preliminary 65 mb in December led by draws in Pacific crude and distillates. Extremely cold weather boosted crude demand in the Pacific as refiners ramped up throughputs and drew stocks to keep pace with increases in distillate demand. The volatile 'other products' category in the US and distillates in Europe also saw declines, leaving total stocks at 2597 mb or 39 mb above year-ago levels. Forward demand cover fell to 51 days in December, one day lower than in November and on par with 2004. The total fourth quarter stock draw came to 45 mb, or 0.5 mb/d, close to the five-year average.

Preliminary Industry Stock Change in December 2005 and Fourth Quarter 2005

(million barrels per day)

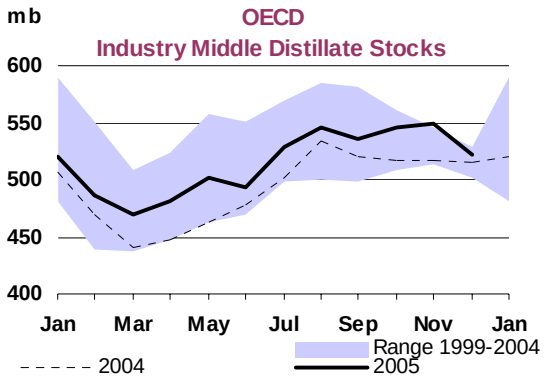
	December (preliminary)				*Fourth Quarter 2005*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.05**	**0.02**	**-0.32**	**-0.34**	**0.14**	**-0.11**	**-0.13**	**-0.11**
Gasoline	0.07	0.04	-0.07	0.04	0.06	0.06	-0.01	0.12
Distillates	0.01	-0.24	-0.65	-0.89	0.13	-0.06	-0.21	-0.14
Residual Fuel Oil	-0.02	-0.07	-0.07	-0.16	0.05	-0.01	-0.03	0.01
Other Products	-0.46	0.02	0.03	-0.41	-0.26	0.01	-0.01	-0.26
Total Products	**-0.40**	**-0.25**	**-0.77**	**-1.42**	**-0.02**	**0.00**	**-0.26**	**-0.27**
Other Oils[1]	-0.14	-0.03	-0.16	-0.32	-0.04	-0.03	-0.03	-0.10
Total Oil	**-0.58**	**-0.26**	**-1.24**	**-2.08**	**0.08**	**-0.14**	**-0.42**	**-0.49**

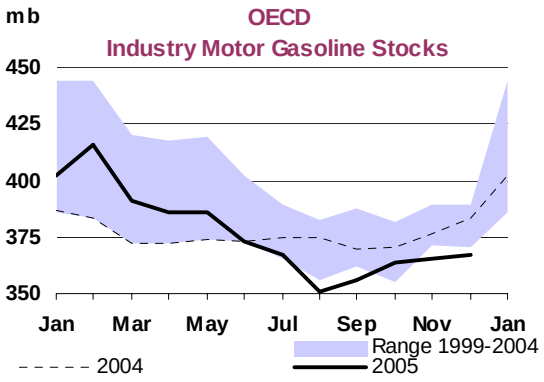
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude oil stocks** fell by a preliminary 11 mb in December, largely in the Pacific. Crude inventories fell in both Japan and Korea, where extreme cold prompted refiners to run at close to record rates. In Europe and North America, crude stocks were relatively unchanged in comparison. US crude output lost in December due to hurricane damage was largely balanced by a similar year-on-year drop in refinery throughputs. At 926 mb, total crude inventories closed December 34 mb above year-earlier levels.

- **OECD industry distillate stocks** declined by 28 mb in December to close the month at 522 mb, or 7 mb above the end-2004 position. The bulk of the decline was centred in the Pacific, where extremely cold weather led to a surge in heating fuel demand and declines in kerosene and low-sulphur fuel oil stocks. European distillates also fell, despite preliminary indications of weak inland deliveries in key consuming countries. In contrast, US distillates built by 7 mb in January following unseasonably mild temperatures.

- **OECD industry gasoline stocks** trended sideways in December at 17 mb below year-earlier levels. In January, however, weekly data show that US gasoline inventories built by a larger-than-expected 19 mb. In terms of forward supplies, US total gasoline stocks have rebounded to their five-year average, but finished gasoline stocks remain low. With expected heavy first-quarter maintenance, the phasing-in of new blending and sulphur regulations and robust US demand, supplies might still prove tight in the coming months.





OECD Industry Stock Changes in December 2005

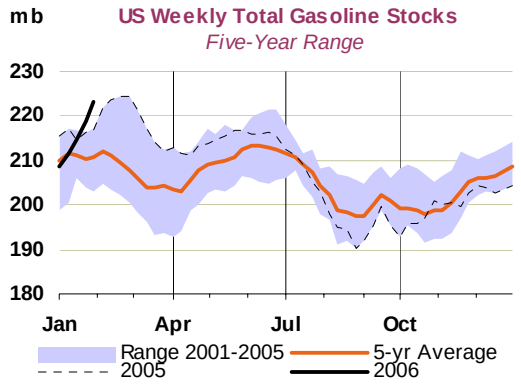
OECD North America

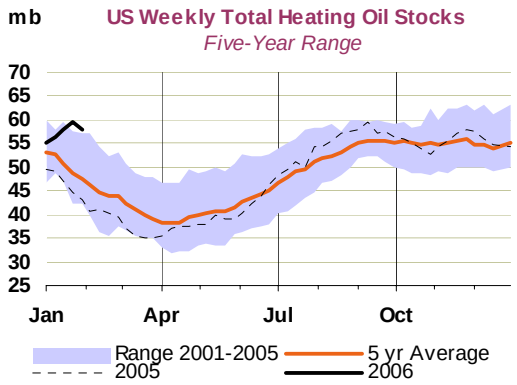
Crude inventories in North America held relatively flat in December, as a 2 mb draw in Mexico was partly offset by a small increase in the US. Although offline crude and NGL production in the US Gulf of Mexico is slowly returning, a substantial portion of capacity remained shut in December and January. Lost crude output in December was however largely offset by refinery capacity still affected by the September hurricanes. However, some of this throughput loss was partly mitigated by increases elsewhere in the US.

US-50 crude stocks continued to trend sideways in January as a dip in refinery throughputs was offset by a reduction in imports. Total crude imports fell from an average 10.2 mb/d in December to just under 9.7 mb/d in January on lower spot arbitrage shipments and reduced demand ahead of seasonal maintenance. Stocks at Cushing, the delivery point for the NYMEX WTI contract, remained close to the highest level seen in almost two years and are reportedly close to capacity. This is raising marginal storage costs and so supporting a strong contango in forward prices.

North American product inventories fell by a total of 13 mb in December, the volatile 'other products' category in the US accounting for most of the change. This fall coincides with sharply reduced ethane and LPG demand, underscoring the view that temporary supply restrictions are constraining use by the petrochemical sector. Offsetting moves were seen for gasoline in the US and in Mexico, with US gasoline stocks building in line with seasonal norms. In January, US gasoline stocks rose at a faster than normal pace, lifting them back to year-ago levels.

In terms of days of forward supply, cover has rebounded to its five-year average for total gasoline. Finished gasoline stocks however (excluding blending components) remain low at 16 days. Low inventories had raised concerns of a supply crunch in the run-up to the US summer driving season. In light of reduced MTBE blending, new sulphur specifications and an anticipated heavy first half 2006 maintenance season, future supplies of gasoline and diesel remain a concern of market participants.





US distillate stocks posted contra-seasonal builds in December and January, as warmer-than-normal weather, particularly in the main consuming area in the Northeast, led to a sharp drop in seasonal heating oil demand. Imports of middle distillates continued apace, averaging 520 kb/d in January, the highest volume seen since March 2004. At the end of January, total US distillate stocks closed 10% above last year with the bulk of the surplus stemming from heating oil as opposed to diesel.

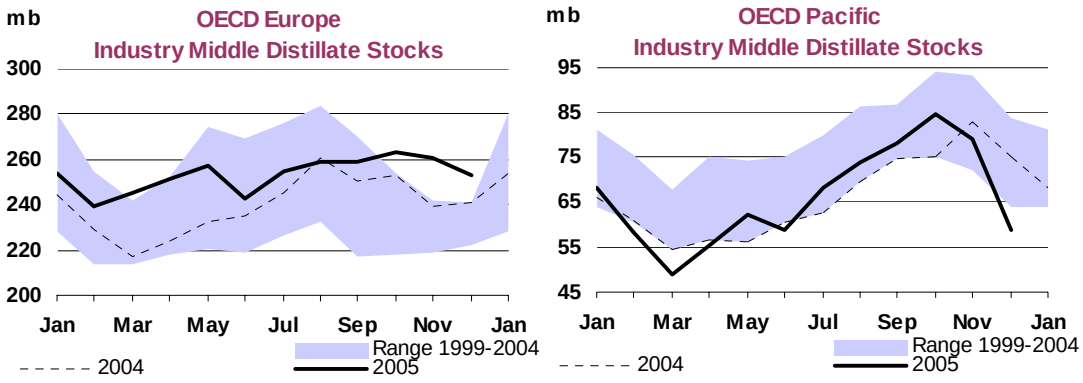
OECD Europe

Total European crude inventories were largely unchanged in December. The Netherlands saw increases in their crude holdings as refinery runs were reduced due to falling margins. In France and the UK, crude stocks fell as refinery throughputs continued at firm levels. In January, a spate of weather-related outages in the North Sea and Russia reduced regional supplies although this was offset by lower arbitrage shipments to the US.

European middle distillate inventories fell by 8 mb in December, despite preliminary indications of weak inland deliveries in key consuming countries. The draw came mainly from the Netherlands where refinery throughputs were running 5% lower than in November and exports to the US continued apace. The stock draw in the Netherlands can also be attributed, in part, to cyclical

refreshing of gasoil inventories by the strategic stock holding agency, COVA. These operations caused government distillate stocks in the Netherlands to draw in November, balanced by a build in industry stocks in that month. When government stock data for December become available next month, government stocks should post a build as the supplies are replaced. Until the refreshment operations are finished in the second half of 2006, government and a portion of industry stocks will show some volatility, which should not be confused with further draws or replenishment of strategic stocks.

Distillate stocks also fell in Germany and France. The fall seemed unusual, coinciding with a period of strong throughputs and preliminary indications of weak demand. However, inland deliveries were to an extent hampered by low water levels on the Rhine. Deliveries to inland markets were further disrupted in January as smaller rivers and canals feeding the Rhine and the Danube froze with the arrival of extremely cold weather. A fall in European fuel oil inventories was offset by a build in gasoline, leaving total product stocks at 542 mb at the end of 2005, 8 mb above December 2004.



OECD Pacific

Pacific crude oil stocks fell by 10 mb in December, with draws observed in Japan and Korea. In both of these countries, refinery throughputs have been running at high levels in order to supply heating fuels for an unusually cold winter. Weekly data from the Petroleum Association of Japan show Japan's commercial onshore crude inventories falling to 88 mb in the first week of February, the lowest level seen in more than 30 years. At 156 mb, total Pacific crude oil inventories finished the year 15 mb below their end-2004 position.

Despite the increase in refinery runs, regional middle distillate inventories fell seasonally in December. In Japan, sales of kerosene, the main heating fuel there, shot to record highs in December as the country experienced its coldest winter month for more than a decade. Similarly, in Korea middle distillate stocks fell on strong weather-related demand. In January, weekly data from the Petroleum Association of Japan show that kerosene stocks continued to fall, although at a slower pace with the return of more normal weather. Kerosene stocks in Japan remain in line with historical norms.

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

OECD industry total oil inventories closed 2005 at 2597 mb, 39 mb above the end-2004 position, keeping pace with the growth in demand. Only the Pacific fell below the previous year by 37 mb and Europe and North America posted year-on-year surpluses of 17 mb and 59 mb respectively. Month-on-month changes came to 65 mb from November, with draws stemming from both crude and products. Days of forward demand cover fell to 51 days for the OECD as a whole, one day lower than in November and on par with the previous year. On a regional basis, forward cover came to 49 days for North America, 60 days for Europe and 41 days for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for December 2005

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**41.6**	**7.9**	**-15.4**	**34.1**	**Total Oil**	**2.2**	**0.6**	**-4.1**	**0.5**
Total Products	6.4	7.5	-19.5	-5.6	*Versus 2003*	3.2	1.4	-5.6	0.9
Other Oils[1]	10.8	1.5	-1.9	10.4	*Versus 2002*	1.2	2.3	-0.8	1.2
Total Oil	**58.8**	**16.9**	**-36.8**	**38.9**	**Total Products**	**0.2**	**0.2**	**-2.2**	**-0.2**
Versus 2003	98.6	22.4	-41.3	79.7	*Versus 2003*	0.5	0.2	-2.1	-0.1
Versus 2002	85.5	49.2	-14.1	120.6	*Versus 2002*	-0.8	0.0	-0.4	-0.5

1 includes feedstocks, NGLs and other hydrocarbons

November preliminary data were revised down by a total of 17 mb, accruing from both crude and products. The bulk of the revisions came from OECD Europe, where crude and all products bar gasoline were revised downwards. Within Europe, Germany, Italy, the UK and other EU countries all had their stock positions revised downwards. Only the Netherlands, and to a lesser extent, France saw upward revisions. Total oil inventories in North America were also revised downwards, with an upwards revision to crude inventories in Canada and the US partly offsetting the move. In the Pacific, changes were small in comparison. October data were revised down by a total of 6 mb, again, Europe accounting for most of the change.

Revisions versus 17 January 2006 Oil Market Report
(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Oct 05	Nov 05	Oct 05	Nov 05	Oct 05	Nov 05	Oct 05	Nov 05
Crude Oil	**-1.4**	**3.2**	**-1.0**	**-7.5**	**0.0**	**0.4**	**-2.4**	**-3.9**
Gasoline	0.0	-0.5	0.3	2.3	0.0	-0.3	0.3	1.5
Distillates	0.0	-1.1	-1.1	-1.8	0.0	0.1	-1.1	-2.8
Residual Fuel Oil	0.0	-1.0	-0.5	-3.9	0.0	-0.1	-0.5	-5.0
Other Products	0.0	-0.1	-0.1	-2.3	0.0	0.0	-0.1	-2.4
Total Products	**0.0**	**-2.7**	**-1.3**	**-5.7**	**0.0**	**-0.3**	**-1.4**	**-8.7**
Other Oils[1]	-0.6	-3.5	-1.9	-0.3	0.0	-0.3	-2.5	-4.2
Total Oil	**-2.0**	**-3.0**	**-4.2**	**-13.6**	**0.0**	**-0.2**	**-6.2**	**-16.8**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

Recent Developments in ARA Independent Storage

Stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area built for all main products in January, the strongest gains occurring in jet/kerosene, which increased by almost 70% from end-December levels. European refiners have been maximising jet fuel production which combined with high demand in the Pacific led to Middle Eastern supplies being diverted away from Europe and towards Asia.

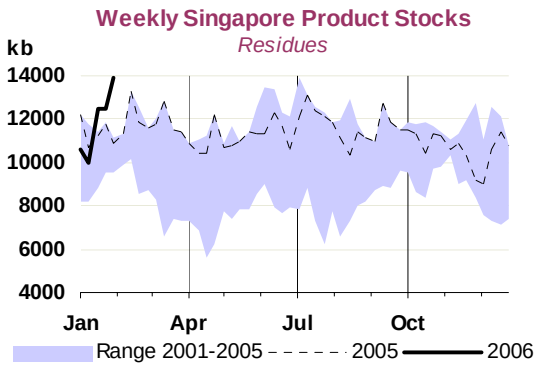
Gasoil inventories also posted gains in January on high volumes arriving from Asia and the Baltic. Preliminary indications of Baltic gasoil exports are that these reached another record high in January despite reductions in crude and fuel oil exports due to weather-related disruptions and increased domestic demand. Material continued to arrive in ARA from Asia as the US arbitrage was largely closed.

In other products, gasoline inventories saw gains of about 20% since the end of December as spot exports to the US became less attractive. Fuel oil stocks trended sideways with LSFO and HSFO seeing diverging trends. Demand for LSFO picked up in the south of Europe as colder weather and interruptions to Russian gas supplies led to higher utility demand. HSFO inventories built as high freight rates and ample supplies in Singapore shut the arbitrage window to Asia.

Recent Developments in Singapore Stocks

Singapore inventories, as surveyed by International Enterprise, saw diverging trends in January. While light distillates and residues rose, middle distillates fell sharply on increased demand for heating fuels in the region.

The biggest changes to stocks came in residues, which have built by almost 30% since the end of December. The build came as the highest volumes of western fuel oil since October 2004 arrived in January. Large volumes of Russian fuel oil were shipped to Asia ahead of the introduction of a higher fuel export tax and in the anticipation of strong demand ahead of the Lunar New Year. Since the new fuel export taxes took effect in November, Russian supplies have been reduced.

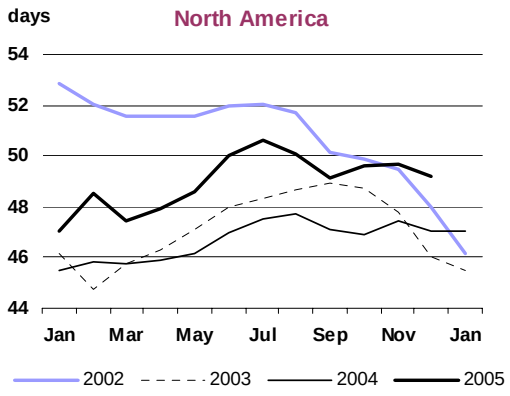


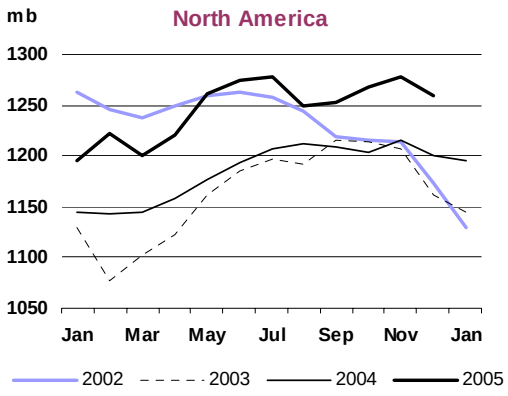
Middle distillate stocks fell back in January as regional demand for heating oils remained strong with continued cold weather. Light distillates, including naphtha and gasoline, built on a combination of lower regional demand and higher exports from China. Demand from Indonesia failed to pick up. The closure of two regional naphtha crackers, however short-lived, also reduced demand, adding to storage.

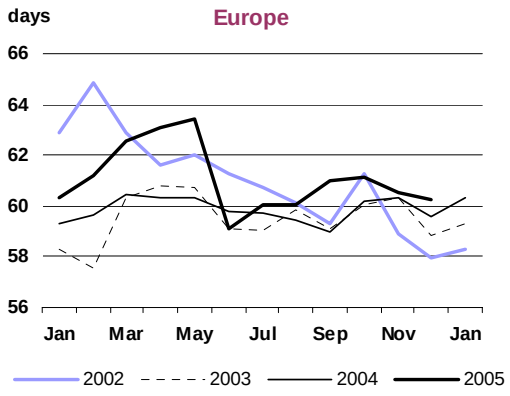
Regional OECD End-of-Month Industry Stocks

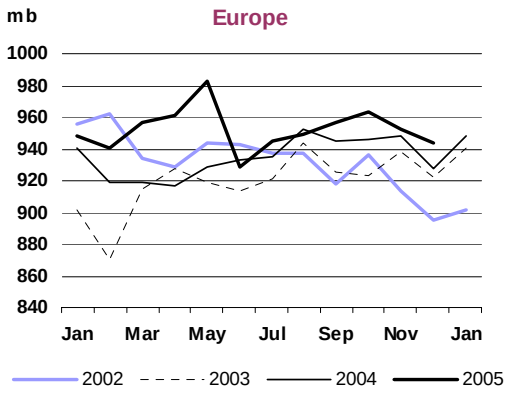
(in days of forward demand and millions barrels of total oil)

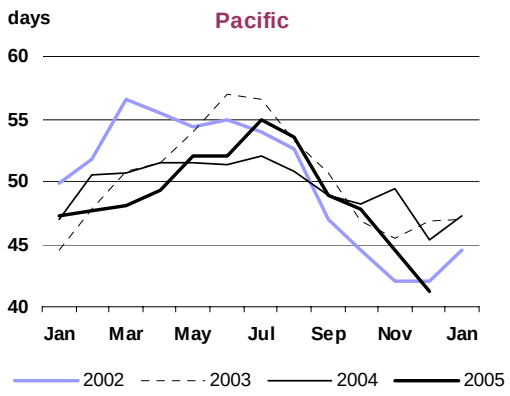
Days[1] | **Million Barrels**

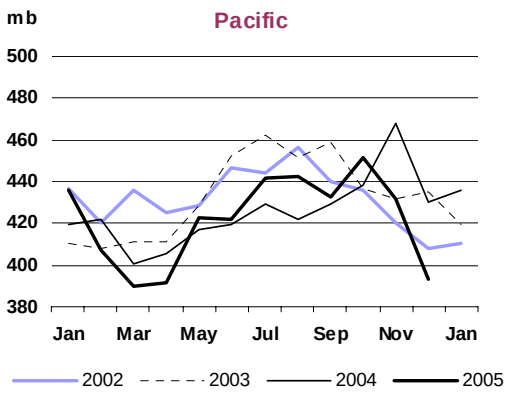


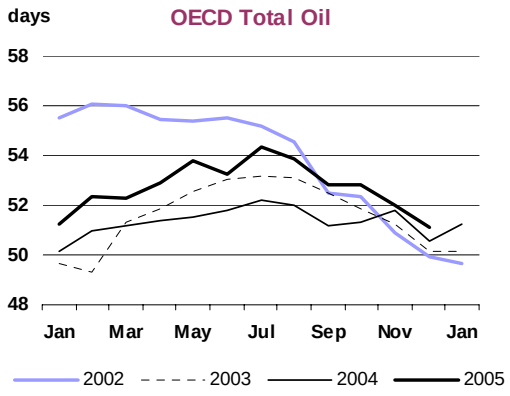


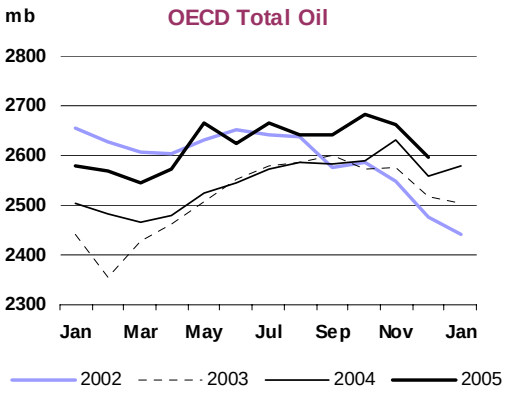












1 Days of forward demand are based on average demand over the next three months

PRICES

Summary

- **Crude futures** rose in January, driven higher by market concerns both over real and potential supply disruptions. NYMEX WTI averaged $65.54/bbl in January, up 9.3%, while IPE Brent futures averaged $63.86/bbl, rising 9.8%. A number of actual weather-related supply disruptions lent varying degrees of support to prices. These were compounded by tensions over Iran's nuclear programme despite official statements that nuclear and oil issues would remain separate. NYMEX WTI hit a high of $68.35/bbl at close on 30 January. Prices swayed between headline news and improving inventory data. The front month WTI contract closed down to $62.55/bbl on 8 February after the release of US weekly statistics. Crude futures held in contango (prompt month below future months) as forward delivery months continued to strengthen along the curve.

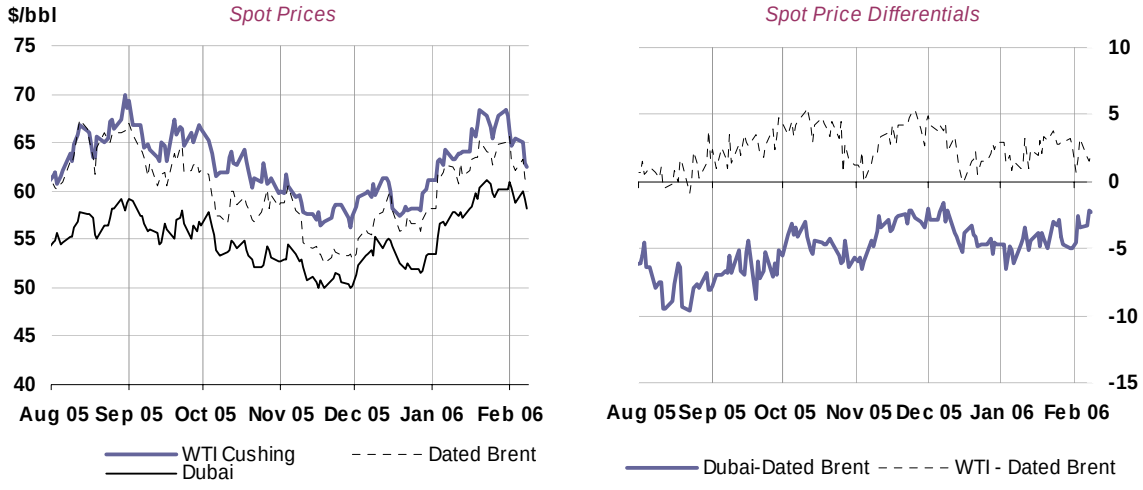
- **Physical crude** prices saw WTI firm relative to Dated Brent in the second half of January. The widening premium came alongside a dip in freight rates on transatlantic routes, opening on paper arbitrage for Brent-related grades. Medium sour Dubai crude weakened against Dated Brent and the differential between Dubai swaps and Brent quoted in Asia widened to $5.13/bbl on average in January. This limited potential for swing sales east of Western barrels loading in March and April.

- **Light product** prices continued to see a strong performance from gasoline with US prices leading European values higher. Distillate trends were dependent on weather patterns. Kerosene used as a heating fuel saw its average price in January rise strongly in Singapore on extremely cold temperatures in Northeast Asia. Heating oil in the US was broadly stable over the month as demand was depressed by mild weather and inventories posted counter-seasonal gains. European gasoil prices increased with colder temperatures, though gains were less pronounced than in Asia. High European crude runs, imports and regional inventories ensured adequate supplies.

- **Product futures** on the NYMEX and IPE generally deepened their contango during January in the near-traded months while the back end of the forward curves shifted higher. The NYMEX heating oil futures curve at the end of January held in contango 12 months forward in contrast to a seasonal backwardation in summer delivery months. This appeared to reflect in part concerns over product specification changes in the US in June. Despite the end of winter season in sight and comfortable stocks, speculators on the heating oil contract lengthened their net buying position.

- **Fuel oil prices** saw contrasting trends between low and high-sulphur material. HSFO generally weakened relative to crude, weighing on refinery margins. LSFO saw its value firm in those regions where temperatures were colder as incremental utility demand supported prices. LSWR in Singapore in particular posted an average gain of $5.81/bbl over the month.

Benchmark Crude Oil Prices



Oil Futures Prices in January

Crude futures posted strong increases in January with NYMEX WTI and IPE Brent up on average by over $6/bbl. WTI averaged $65.54/bbl and Brent averaged $63.86 over the month. On a daily basis, WTI closed at a high of $68.35/bbl on 30 January, just under $1/bbl shy of the post hurricane record reached at the end of August last year. Both contracts gained as a market focus on actual and potential disruptions to crude oil supplies propelled prices higher. With still a sizeable amount of production offline in the Gulf of Mexico, outages in supply came in Nigeria, the North Sea and Australia. Russian and Kazakh supplies fell due to frigid temperatures affecting logistics and Iraqi exports remained weak. Against this backdrop, concerns over Iranian nuclear issues came to the fore more prominently in headline news.

Crude supply concerns in January outweighed an easing set of fundamental data. Recent US weekly data saw gains in crude, gasoline and heating oil inventories while stocks of crude and distillate in Europe were within seasonal averages. However, improving US oil stocks was not necessarily mirrored at the global level. Japanese weekly statistics showed a tighter picture of falling crude stocks following high runs and lower kerosene stocks on strong heating demand. Gains in front month futures prices were accompanied by a rise in the prices of delivery months further along the forward curve. While the contango in the actively traded months deepened into early February, longer dated prices also saw strong increases.

OPEC's decision to leave its production ceiling unchanged at its 31 January meeting was discounted by the market as was easing US crude demand with the beginning of a heavy refinery maintenance period. Trade remained volatile in January and the beginning of February. Prices were swayed between headline news and improving US oil inventories. NYMEX WTI closed down to $62.55/bbl on 8 February. The decision on 4 February by the International Atomic Energy Agency to refer Iran to the U.N. Security Council will keep the market in a 'wait and see' mode until the Agency issues a full report later in March.

Prompt Month Oil Futures Prices

(monthly and weekly averages, $/bbl)

	Nov	Dec	Jan	Jan-Dec		Week Commencing:				
				Avg Change	%	02 Jan	09 Jan	16 Jan	23 Jan	30 Jan
NYMEX										
Light Sweet Crude Oil	58.34	59.45	65.54	6.09	9.3	63.39	63.73	66.81	67.01	66.58
Unleaded Gasoline	63.14	66.79	73.79	7.00	9.5	74.94	72.98	75.49	72.43	72.05
No.2 Heating Oil	72.60	73.35	75.06	1.71	2.3	75.63	72.74	75.72	75.88	75.70
No.2 Heating Oil ($/mmbtu)	12.46	12.59	12.89	0.29	2.3	12.98	12.49	13.00	13.03	13.00
Henry Hub Natural Gas ($/mmbtu)	11.70	13.43	9.14	-4.29	-46.9	9.99	9.13	9.01	8.47	8.88
IPE										
Brent	56.23	57.63	63.86	6.23	9.8	61.72	62.20	64.74	65.38	64.78
Gasoil	71.56	70.69	74.44	3.76	5.0	73.42	71.60	75.37	76.23	75.80
Prompt Month Differentials										
NYMEX WTI - IPE Brent	2.12	1.82	1.68	-0.14		1.67	1.54	2.07	1.63	1.80
NYMEX No.2 Heating Oil - WTI	14.25	13.90	9.52	-4.38		12.24	9.00	8.91	8.88	9.13
NYMEX Unleaded Gasoline - WTI	4.80	7.34	8.25	0.91		11.55	9.24	8.69	5.43	5.47
NYMEX 3-2-1 Crack	7.95	9.53	8.68	-0.85		11.78	9.16	8.76	6.58	6.69
NYMEX No.2 - Natural Gas ($/mmbtu)	0.77	-0.83	3.75	4.58		3.00	3.35	3.99	4.56	4.12
IPE Gasoil - IPE Brent	15.33	13.05	10.59	-2.47		11.70	9.41	10.63	10.86	11.03

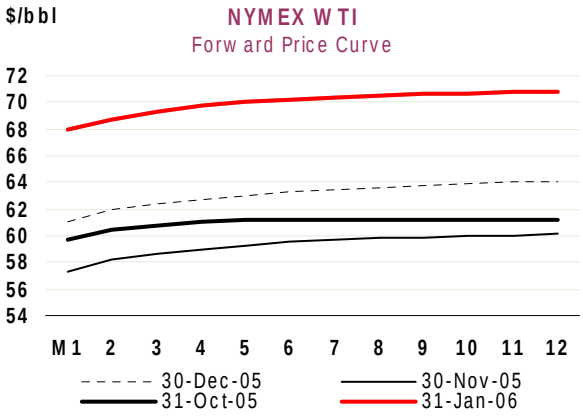
Product futures were in contango in January. Supplies depressed prompt prices for heating oil while in gasoline, concerns over second quarter availabilities combined with the need to rebuild inventories seasonally lifted forward prices. NYMEX heating oil posted a modest average gain in January. Weather in the US was mild, depressing heating demand. Imports in January were at record highs, supporting counter seasonal increases in stocks and limiting price increases.

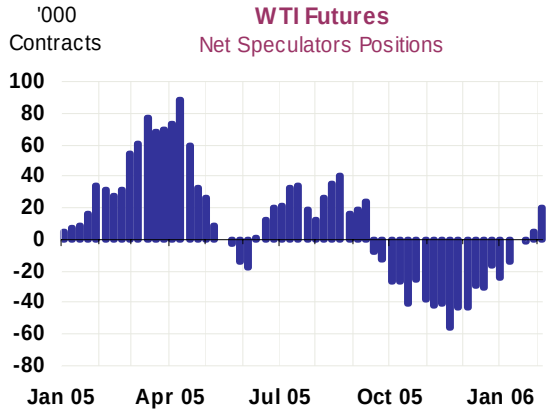
Average gains in gasoline futures outpaced those for WTI on the NYMEX though inventory builds at the end of January put downward pressure on gasoline cracks. However, forward demand cover by finished gasoline in the US was relatively low, and as such, the market priced a premium for July delivery (the beginning of the summer driving season). This year marks the transition in the US towards MTBE free gasoline. The removal of the additive comes with potential volumes losses for the gasoline pool. As such, this raises the need for higher imports and prices to attract them against a backdrop of heavy maintenance this quarter. The forward curve appeared to respond accordingly by shifting higher.

Crude Futures

Crude futures saw strength in the prompt months accompanied by near parallel rises in delivery months further along the curve. While the prompt month WTI moved up on average in January by $6.09/bbl, the twelfth month rose by $5.53/bbl and long-term five-year contract increased by $5.31/bbl.

A number of reasons help explain higher long-dated prices. Forecast oil demand growth remains strong given little indication of a material weakening of the global economy. Spare production capacity, while recovering, will remain on the low side, and the usual uncertainties concerning non OPEC supply growth abound. At the same time, refinery capacity constraints in relation to demand growth will likely persist, reducing forward selling. Alongside capacity constraints, rising costs of storage and the demand for higher inventory cover have supported rising longer dated prices.





Another supportive factor in the stretching forward of the contango into deferred delivery months may be attributable to shifting institutional investor positioning along the curve. A firmly entrenched backwardation in crude futures in 2003 attracted more 'passive' investment into energy-heavy indices in the near-traded months, allowing to maintain or 'roll-over' a position forward with a positive return.

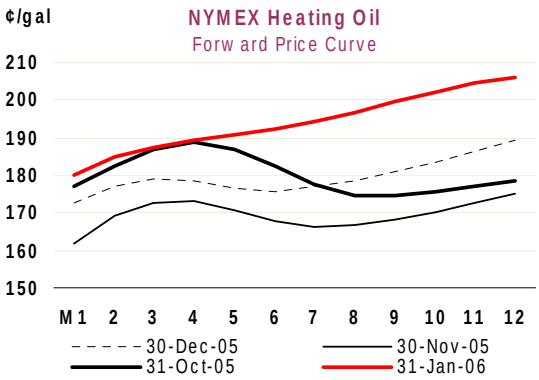
The establishment of what appears to be a sustainable contango in 2005 in the near traded months has made this strategy unprofitable, prompting investment further along the curves where prices were backwardated. Around this time last year, the forward curve bent into backwardation after the third forward delivery month, and the occurrence of this turning point has been shifting further out into less liquid months. On 30 January, backwardation was only established after the thirteenth month out.

Product Futures

A striking feature of product futures at the end of January has been an uncharacteristic shape of the forward curve for heating oil futures on the NYMEX. The curve settled in a contango 12 months forward in contrast to a seasonally expected backwardated structure in the summer months. This year's change to lower sulphur diesel in June appears to be generating concerns. While some 85% of US refiners were reported capable of producing the new specification last December, logistics and pipeline contamination issues are surfacing, raising questions whether the infrastructure can deliver a finished product that meets specifications after it leaves the refinery gate.

Front month gasoline futures outperformed crude on average in January, though end-month values did retreat in the face of rising inventories, weakening crack spreads. Concern over the phasing out of the additive MTBE from the gasoline pool was a supportive factor, in particular in light of a heavy turnaround season and relatively low in forward demand cover by stocks.

Net speculative buying lengthened in gasoline, possibly on the anticipation of greater volatility should unplanned outages occur in a period where inventories need to be replenished ahead of the driving season.



Crude Oil Prices in January

Benchmark Crudes

In physical markets, WTI firmed against Dated Brent in the second half of January, opening arbitrage possibilities for Brent-linked crudes as freight rates on transatlantic routes dipped. However, the average spread for January held relatively stable from December at around $2.42/bbl. US demand for foreign crudes eased ahead of scheduled refinery maintenance, while domestic crude production recovered modestly and stocks closed at comfortable levels. The Brent-Dubai spread widened, medium sour Dubai losing ground at the end of the month. Interest for Dubai and comparable Oman loading end-February and in March lessened as high-sulphur fuel oil cracks weakened and peak winter demand drew to a close.

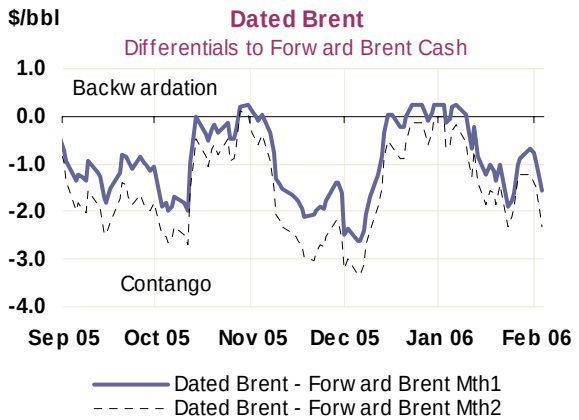
Spot Crude Oil Prices and Differentials

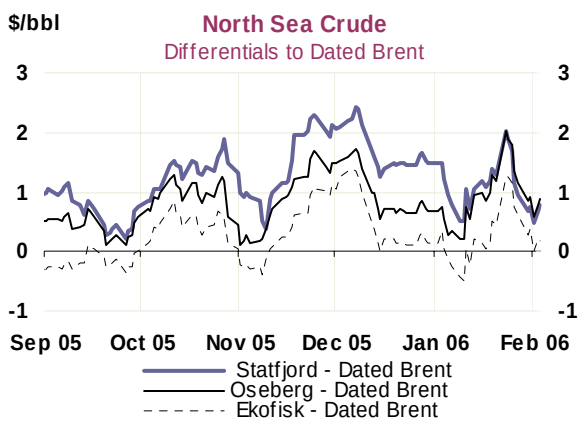
(monthly and weekly averages, $/bbl)

	Nov	Dec	Jan	Jan-Dec Avg Change	%	Week Commencing: 02 Jan	09 Jan	16 Jan	23 Jan	30 Jan
Crudes										
Dated Brent	55.17	56.91	63.05	6.14	10.8	61.91	61.96	63.53	63.77	64.17
Brent (Asia) Mth1 adjusted	56.46	57.87	63.71	5.84	10.1	61.17	62.88	64.58	65.54	65.39
WTI (Cushing) Mth1 adjusted	58.27	59.41	65.46	6.06	10.2	63.35	63.70	66.83	66.80	66.47
Urals (Mediterranean)	52.14	54.53	59.57	5.05	9.3	57.62	58.14	60.52	60.87	60.24
Urals (Northwest Europe)	51.51	53.44	59.48	6.04	11.3	56.91	58.06	60.22	61.32	60.74
Bonny Light	57.00	57.87	64.04	6.17	10.7	61.82	62.42	64.96	65.61	65.53
Dubai Mth1 adjusted	51.39	53.20	58.44	5.24	9.9	56.28	57.52	59.17	60.18	60.03
Dubai Swaps Mth1 adjusted	51.81	53.44	58.58	5.14	9.6	56.40	57.71	59.34	60.25	60.32
Tapis (Dated)	58.36	62.02	69.20	7.18	11.6	66.49	68.42	69.65	71.53	70.89
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	3.10	2.50	2.42	-0.08		1.44	1.74	3.30	3.03	2.29
Urals (Mediterranean)	-3.04	-2.38	-3.47	-1.09		-4.29	-3.81	-3.01	-2.91	-3.93
Urals (Northwest Europe)	-3.67	-3.47	-3.57	-0.10		-5.00	-3.89	-3.31	-2.46	-3.43
Bonny Light	1.82	0.96	0.99	0.03		-0.09	0.47	1.43	1.83	1.36
Dubai Mth1 adjusted - Dated Brent	-3.79	-3.71	-4.61	-0.90		-5.64	-4.44	-4.36	-3.59	-4.14
Dubai Swaps - Brent Asia	-4.65	-4.43	-5.13	-0.70		-4.77	-5.18	-5.23	-5.29	-5.07
Tapis (Dated)	3.19	5.11	6.15	1.04		4.58	6.46	6.12	7.76	6.72
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-0.74	-0.58	-0.50	0.08		-0.50	-0.58	-0.52	-0.34	-0.62
Forward WTI Cushing Mth1-Mth2 adj.	-0.71	-0.71	-0.59	0.11		-0.75	-0.63	-0.43	-0.50	-0.77

Europe and West Africa

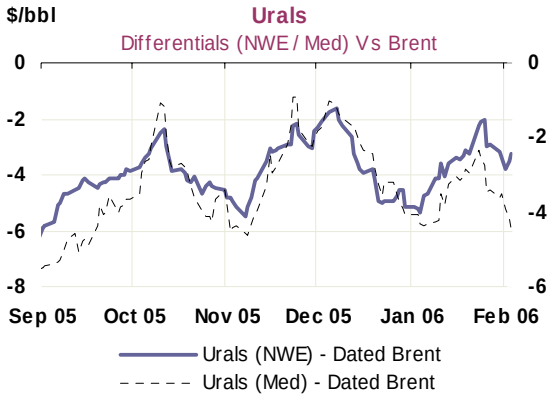
Premiums for North Sea grades strengthened through most of January before falling back. European refinery buying was reported strong in early January, motivated by a need to replenish supplies after keeping runs high in December. Interest for North Sea barrels was also partly motivated by buyers seeking alternatives to Nigerian grades in light of supply disruptions. Supply availability, however, appeared to remain high, the contango in the physical forward Brent market widening throughout January. In the very short-term, Brent contract for differences (swap prices) for early February against the March forward contract had fallen back into a discount after a material narrowing in December.

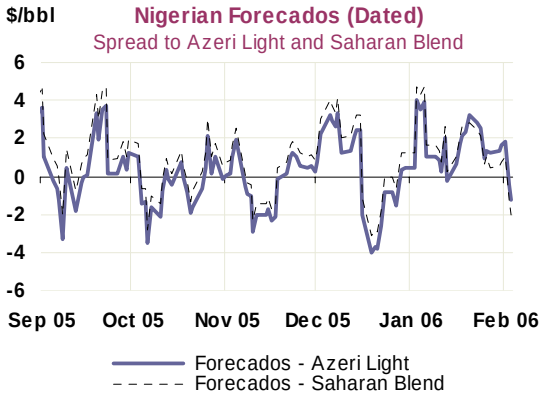




Medium sour Urals crude strengthened through most of January, before levelling off respectively at around $61 and $62 in Northwest Europe and in the Mediterranean. Buying interest was high, supported by relatively firm cracking margins when compared to light sweet Brent. Urals prices also firmed because of lower availability of comparable Iraqi crude. Iraqi exports from southern ports in the recent three months have been running at around 1.2 mb/d on average as compared to exports of 1.6 mb/d in September. Russian production at the same time was reduced due to frigid weather conditions impacting production logistics.

Arbitrage opportunities to the US likewise supported Urals prices. Fixtures were reported from the Baltics as well as the Black Sea, facilitated by lower freight costs. As such, Urals saw its discounts relative to Dated Brent narrow significantly for most of January but weaker refining margins at end-month reversed this trend. Firming Urals values in the Mediterranean were also linked to reduced availabilities due to loading delays on the Black Sea and transit delays through the Turkish Straits. This pushed buyers to seek Baltic supplies, pushing the price of Urals in Northwest Europe to a premium over the Mediterranean.





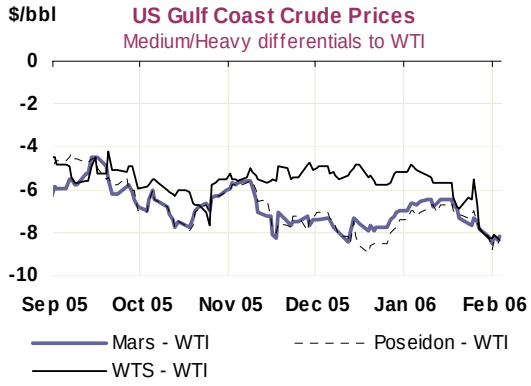
Asian interest for West African crude, prompted by favourable price spreads at the end of December and in early January, pulled an estimated 1.6 mb/d of February loading crude east. The bulk of shipments was reportedly to China and India. This helped to put premiums firmly back into positive territory for Nigerian Bonny Light and Qua Iboe relative to Dated Brent. The increase was likely also supported by buyers seeking alternatives following disruptions to Nigerian Forcados and EA crudes and quality issues surrounding the new Bonga stream.

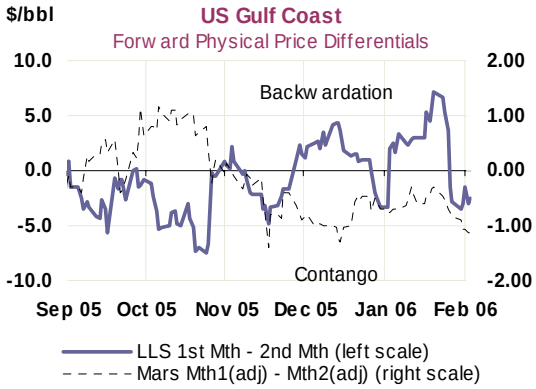
Heavier Angolan Cabinda was also bid up by Chinese demand, prompted by a narrow price spread against markers Oman and Dubai in early January. Uncertainties surrounding Nigerian supplies also appeared to impact Mediterranean crudes as buyers sought light sweet Azeri and Algerian Saharan blend. Rising interest for February barrels in these crude saw their discount relative to Bonny Light and Forecados fall.

The Americas

The magnitude of the scheduled maintenance this year, combined with comfortable inventories and recovering production in the Gulf of Mexico led US refiner demand for foreign crude to ease in January. Crude imports have declined steadily since December and some firming in the price spread of domestic grades relative to WTI gave way to a widening of discounts in the second half of January. Sour grades such as Mars, WTS or Poseidon traded at more than an $8/bbl discount to WTI by the end of January. In contrast heavier Mexican Maya crude saw its discount holding steady, albeit at depressed levels, and somewhat narrowing at the end of the month.

With spring refinery maintenance expected to peak in March, it is likely that differentials relative to WTI will be tightening around that time in order to attract deliveries for April to meet higher refinery throughputs. In the meantime, prompt crude availability on the Gulf Coast in relation to easing crude demand, was reflected in forward prices on physical markets. These continued to see near month delivery prices for Mars remain in contango. Light sweet Gulf marker, LLS, over the same period saw its prices in the near-traded months move into contango in January.



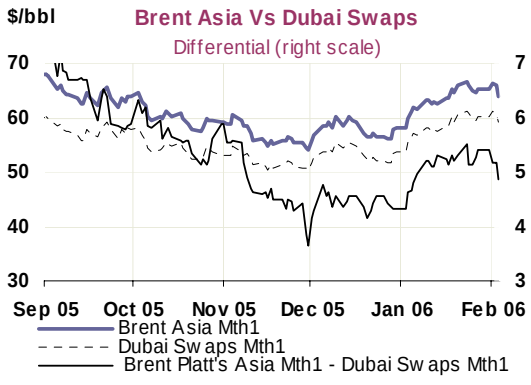


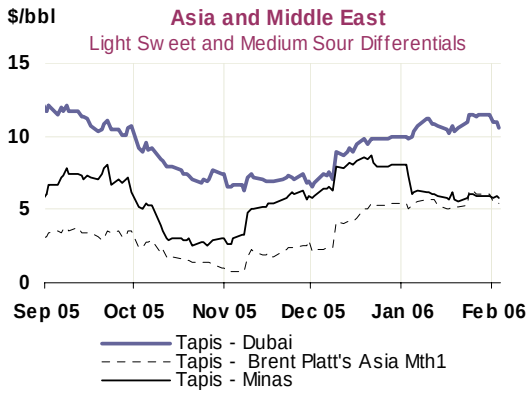
Middle East and Asia

Medium sour Oman and Dubai saw a weaker performance when compared to Atlantic Basin light sweet crudes in January, with Dubai gaining an average of $5.24/bbl relative to a $6.14 increase for Dated Brent. Demand for medium and heavier sour crudes eased through the month due to their large cut of high-sulphur fuel oil, which saw its crack value weaken materially in Asia. In contrast, lower sulphur Asian medium sweet grades were supported by stronger low-sulphur fuel prices. These firmed with higher utility demand due to cold temperatures in Northeast Asia.

Extremely cold weather in Northeast Asia also supported February barrels of Abu Dhabi distillate-rich grades due to their high yield of heating kerosene. However, as trade in March cargoes began, interest diminished ahead of seasonally weaker heating demand at the end of the first quarter. Higher distillate and light product prices in Singapore buttressed Malaysian light sweet Tapis crude, the grade also receiving support from a weather-related reduction in Australian supplies.

With trade in Middle East and Asian crudes switching to the end of the first quarter, Asian crude demand is likely to ease as throughputs begin to moderate ahead of seasonal turnarounds. At the same time, spot crude demand could weaken faster on discretionary run cuts in view of deteriorating regional refining margins and hikes in official selling prices (OSP) for Middle East crude. Abu Dhabi and Oman raised their retroactive OSPs for January barrels while Saudi Arabia raised March formula pricing to Asian destinations.





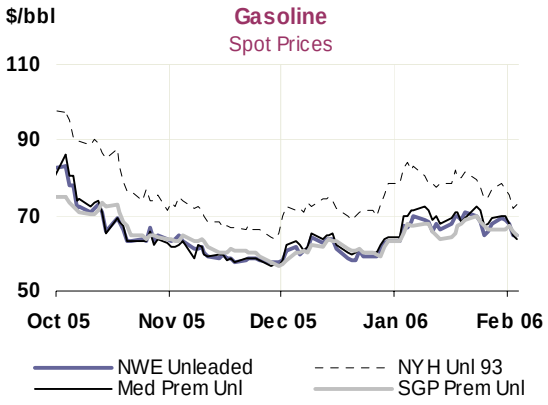
Delivered Crude Prices in November

IEA countries paid $3.23/bbl less, on average, for crude delivered in November. The decline from October followed in line with a softening in crude prices and weaker freight costs, notably on crude sourced from the Arabian Gulf. Compared to November 2005, delivered crude costs were up on average by $12.50/bbl. On a regional basis, North American IEA countries saw the largest decline in price, around $4/bbl lower than October followed by Pacific IEA countries with $3.10/bbl. European IEA countries saw a more modest decline of $2.64/bbl.

Product Prices in January

Spot Product Prices

Light product prices rose on average in January against December in line with gains in crude prices, particularly in the first half of the month. Regional differences emerged in distillates and fuel oil, mainly linked to diverging weather patterns and relative availability of supply, either through inventories or refinery output.



Gasoline rose on average in all markets, generally leading price gains across the product complex. In the Europe, prices were up by around 11.5% while those in New York Harbour and Singapore rose at a slightly weaker pace of about 9.5%. In contrast, heating oil and low-sulphur fuel oil used in power generation saw mixed fortunes, their price trend dependent on diverging regional weather patterns.

Heating kerosene in Asia was lifted by strong demand and rapidly drawing stocks as temperatures fell well below seasonal norms. In contrast to other markets, this put the average price gain on dollar per barrel basis for jet/kerosene in Singapore above that of gasoline. A cold snap in Europe also pushed gasoil prices higher, however regional supply availabilities capped price gains. With very mild temperatures in the US in January, increases in the price of heating oil were limited in comparison. Low-sulphur fuel oil saw its price path mirror to some extent trends in heating fuels. As such, utility demand drove up prices in Asia and supported values in the Mediterranean. In stark contrast, prices in New York Harbour fell on average in January. The decline, in addition to weather related factors, was also supported by reduced switching into oil by utilities as prices of natural gas came down.

Spot Product Prices

(monthly and weekly averages, $/bbl)

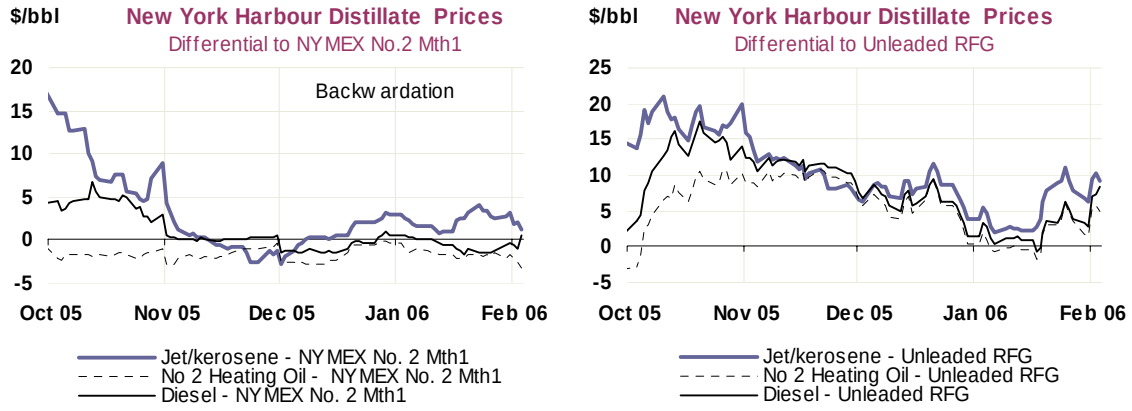
	Nov	Dec	Jan	Jan-Dec		Week Commencing:					Nov	Dec	Jan
				Change	%	02 Jan	09 Jan	16 Jan	23 Jan	30 Jan			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	61.10	62.14	69.35	7.21	11.6	69.26	68.70	70.63	68.46	68.17	5.93	5.23	6.30
Unleaded	59.85	61.10	68.15	7.05	11.5	68.02	67.44	69.39	67.36	67.09	4.67	4.19	5.10
Naphtha	52.71	54.86	61.85	6.98	12.7	62.30	61.16	62.47	61.74	60.12	-2.46	-2.04	-1.20
Jet/Kerosene	69.69	70.19	76.37	6.19	8.8	73.91	72.95	77.49	79.59	77.48	14.51	13.28	13.32
Gasoil .2%	67.64	67.78	72.06	4.28	6.3	71.86	69.40	72.09	74.00	73.55	12.46	10.87	9.01
LSFO 1%	43.68	43.41	46.98	3.57	8.2	46.45	44.58	47.02	48.64	49.49	-11.49	-13.50	-16.07
HSFO 3.5%	39.10	39.14	44.01	4.86	12.4	42.31	42.54	44.85	45.23	45.91	-16.07	-17.77	-19.04
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm *	57.79	60.71	67.64	6.94	11.4	68.29	67.60	67.30	67.51	65.08	5.65	6.18	8.07
Naphtha	50.85	53.34	58.83	5.49	10.3	59.35	58.01	59.36	58.82	57.33	-1.29	-1.19	-0.74
Jet Aviation fuel	68.25	68.51	74.03	5.52	8.1	71.71	70.47	75.17	77.14	75.74	16.12	13.98	14.45
Gasoil .2%	66.44	68.16	71.99	3.82	5.6	71.60	69.73	72.20	73.44	73.36	14.30	13.63	12.41
LSFO 1%	43.57	45.27	49.88	4.62	10.2	47.90	47.32	50.14	53.10	51.92	-8.56	-9.26	-9.69
HSFO 3.5%	37.09	36.51	41.30	4.79	13.1	38.28	39.30	42.14	43.32	44.61	-15.05	-18.02	-18.27
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	68.86	72.35	79.33	6.99	9.7	82.96	78.58	80.92	76.64	75.00	10.59	12.94	13.87
Unleaded	61.88	67.19	72.82	5.63	8.4	75.65	72.02	73.58	70.68	69.55	3.61	7.78	7.35
Jet/Kerosene	72.61	74.01	77.42	3.41	4.6	77.75	73.95	78.35	79.10	77.90	14.34	14.61	11.95
No. 2 (Heating Oil)	70.86	71.66	73.41	1.75	2.4	74.43	71.20	73.70	74.15	73.32	12.59	12.26	7.94
LSFO 1%	46.17	48.81	47.63	-1.19	-2.4	48.19	45.78	47.47	48.15	49.95	-12.10	-10.59	-17.84
No. 6 3%	37.54	41.22	44.39	3.17	7.7	42.97	43.25	44.66	45.03	47.60	-20.73	-18.19	-21.07
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	60.87	61.01	66.78	5.77	9.5	66.95	65.58	66.72	67.67	65.93	9.49	7.81	8.34
Naphtha	53.19	53.78	58.26	4.48	8.3	56.91	58.01	58.88	58.91	57.21	1.80	0.58	-0.18
Jet/Kerosene	64.78	70.37	77.02	6.65	9.4	75.68	75.82	77.32	78.75	75.88	13.40	17.17	18.58
Gasoil .5%	61.80	63.82	69.37	5.55	8.7	69.15	68.12	69.18	70.74	66.09	10.41	10.62	10.93
LSWR Cracked	45.96	47.81	53.63	5.81	12.2	51.18	52.68	54.51	55.47	55.38	-5.43	-5.38	-4.81
HSFO 180 CST	45.40	44.74	47.69	2.95	6.6	45.29	46.61	48.95	49.22	49.98	-5.98	-8.46	-10.75
HSFO 380 CST 4%	44.98	44.53	47.51	2.98	6.7	45.65	46.36	48.67	48.77	50.03	-6.41	-8.67	-10.93

* From January 2005 Premium Unleaded 50 ppm

The Americas

Gasoline prices were up on average in January, supported by low, albeit it rising, forward demand cover by finished gasoline stocks. Cover was only partially improved when RBOB with alcohol (the MTBE free blendstock) was included in the cover ratio. US deliveries saw firm growth, the latest four-week average showed deliveries at nearly 9 mb/d, up 1.2% from the previous year. However, the average price increase masks trends during the month. Prices in New York Harbour and on the Gulf Coast had shifted higher by the end of December and began to drift lower during January as heavy imports boosted supplies and added to inventories. This allowed distillate prices in turn to recapture their seasonal premium relative to gasoline in the second half of the month. Gasoline prices on the West Coast bucked this trend, with prices in Los Angeles rising through most of January. The increase reflected the West Coast's greater sensitivity to periods of refinery maintenance. Niche product specifications for finished gasoline limit the availability of alternative supplies to those produced regionally.

A supportive factor in the US gasoline market this year is the phase-out of additive MTBE. The removal of MTBE in favour of an ethanol replacement comes with a volumes loss in the summer gasoline pool that will need to be offset. In light of a relatively heavy turnaround season, prices could respond rapidly to any unplanned outages at a time when inventories need to be rebuilt. In this context, the move towards MTBE-free gasoline may require higher domestic prices to attract additional foreign product and increase the pool of blending components that US refiners use to produce finished gasoline.



Heating oil prices saw modest gains as mild January weather depressed demand and slowed refinery deliveries. Prices posted on average a $2/bbl gain for New York Harbour and the Gulf Coast despite counter-seasonal increases in stocks. Prices held about even at end-month from their December level. Diesel followed much the same path as heating oil and physical prices were likewise discounted relative to the front month NYMEX heating oil futures contract.

Jet/kerosene performed better on average in January than other distillates, decoupling from trends in gasoil and diesel. Prices rose through the month and jet/kerosene moved to a premium to gasoil futures in the second half of January. The price increase was supported by tightening supplies as imports retrenched from the highs seen in the previous two months. As with heating oil and diesel, the West Coast market saw larger gains. In addition to refinery turnaround considerations, it is likely that the West Coast saw lower arrivals of material from Asia, where prices for kerosene were strong.

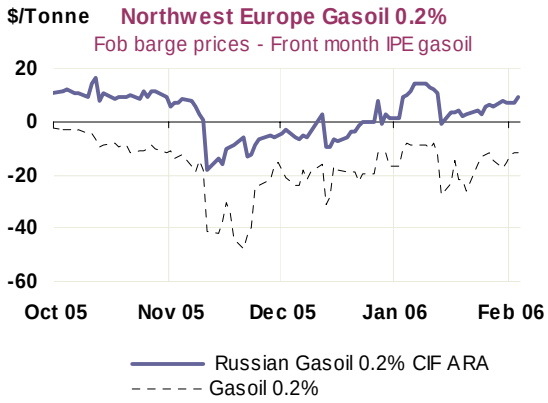
Low-sulphur fuel oil prices, in contrast to Asia, declined on average over January in New York Harbour, prices dipping mainly in the first half of the month. Milder weather in January depressed incremental utility demand for fuel oil. At the time, further downward pressure on prices came from substantially weaker natural gas prices. This eased utility demand substitution into oil. The weakening of prices in New York Harbour opened on paper the possibility for arbitrage sales to Europe, particularly to the Mediterranean where utility demand rose on colder temperatures.

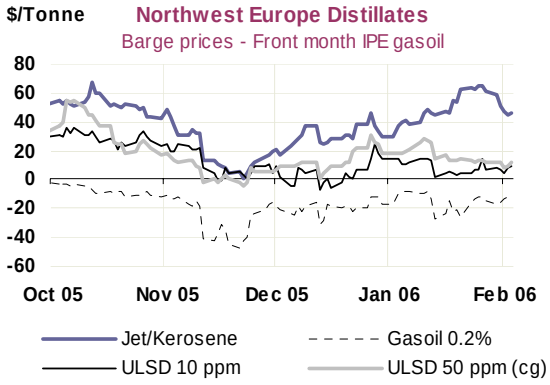
Europe

Despite relatively weak domestic demand and high refinery runs, gasoline prices in Europe were up in January with rising US prices. Prices shifted higher in the early part of the month with exports of gasoline to the US and West Africa. Transatlantic arbitrage opportunities began to slow down by the end of January as the seasonal build in US inventories gathered pace, limiting room for further price gains. In the Mediterranean, gasoline prices also found support with increased demand to deliver

gasoline to Iran. Further limits to upward moves in prices came with improving prompt availability. Swap price differentials for gasoline barges in Northwest Europe between February and March delivery saw their contango structure widen in the second half of the month.

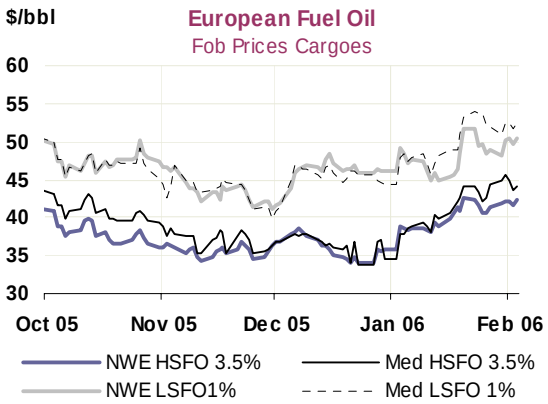
Gasoil prices in Europe rose with the arrival of colder temperatures in January but gains were below those for gasoline. Prices in Northwest Europe and in the Mediterranean tracked each other, but a sharp increase in prices was mitigated by supply availability. European refinery runs remained firm while imports rose. Russian gasoil supply from the Baltics increased as arbitrage trade to the US closed and the arrival of Asian material also added to supplies. Price support through demand for ARA material was reported more regularly from France and Spain rather than Germany, albeit barge traffic on the Rhine was hampered by icy weather conditions. Preliminary indications suggest relative weakness in German gasoil deliveries, indicating demand was either met by domestic refineries and/or a continued reliance on consumer stocks. Reflecting prompt supply availability, gasoil swaps in Northwest Europe held in strong contango. Also, physical 0.2% gasoil prices were discounted beyond $20/tonne in the middle of January, while Russian CIF cargoes saw early month strength fall.

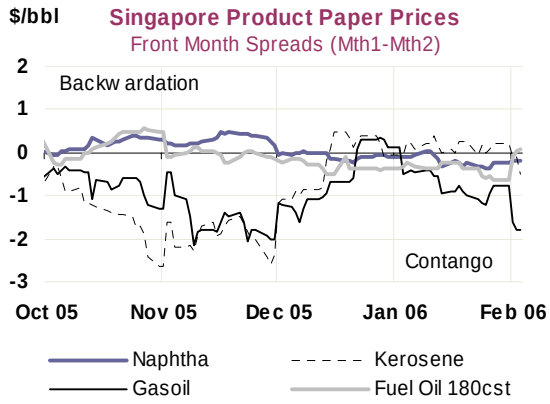




Jet/kerosene prices fared better than gasoil on a differential basis with physical prices posting a growing premium over IPE's gasoil contract in January. The increase came despite preliminary indications of jet fuel stocks reaching highs in independent storage in ARA. Part of the price increase came with the anticipation of lower arrivals of Middle Eastern material for February. Bidding for these supplies met with competition from a strong Asian market where jet/kerosene values were boosted by extremely cold weather. Swaps in Northwest Europe continued to price forward deliveries in contango, reflecting the rising costs of storage as well as the structurally short position for jet fuel in Europe.

Fuel oil prices rose rapidly in both Northwest Europe and in the Mediterranean in January with increases in low- and high-sulphur material. High-sulphur fuel oil saw, on average, higher gains over the month. This appeared to follow increases in crude prices rather than fundamentally tighter supplies. However, stronger bunker demand was reported as a supportive factor alongside shipments of HSFO from Baltics to the US Gulf Coast, moderating inflows into Northwest Europe. But on a spread basis, cracks generally worsened relative to crude. In low-sulphur material, prices gained momentum in the second half of January, mainly in the Mediterranean, on increased utility demand, notably in Italy.

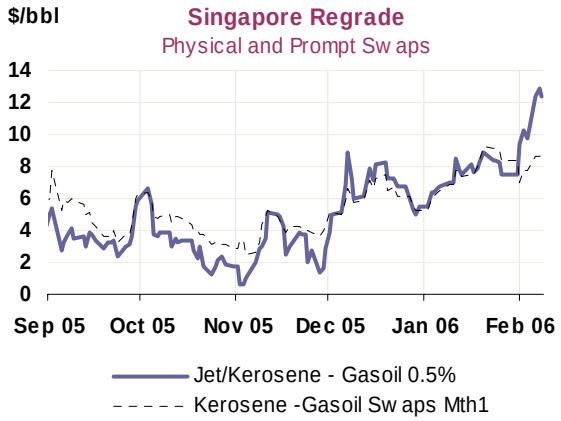


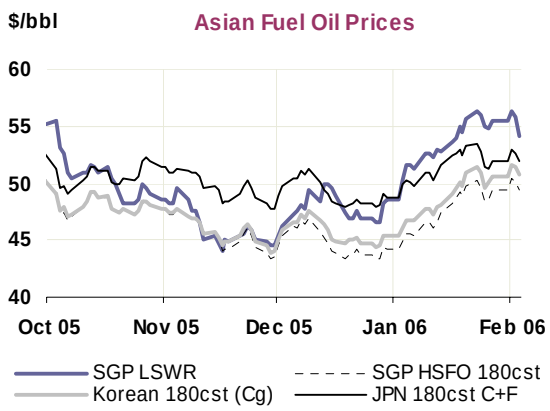


Singapore

Price changes for jet/kerosene outpaced those in other products in Singapore during January. In contrast to other markets, gains outpaced increases in gasoline. Jet/kerosene prices rose $6.65/bbl compared to $5.77/bbl for premium unleaded gasoline. In mid-January, Asia took over as the world's strongest kerosene market, attracting Middle Eastern cargoes away from Europe. The regrade (the premium of jet/kerosene over gasoil), a measure indicative of the relative incentive to maximise yield of jet over gasoil, rose strongly in January. The spread peaked at close to $9/bbl by mid-month, reaching $10/bbl in early February, though the second peak appears more connected with gasoil weakness rather than kerosene strength.

The rise in jet/kerosene prices came with extremely cold temperatures in Northeast Asia where kerosene is used as a heating fuel. Jet/kerosene on cargo markets was bid up as Japanese spot demand rose due to strong domestic demand and falling inventories. Spot distillates prices did retrench in the latter part of January on high regional output and anticipation of seasonally falling kerosene demand at the end of the first quarter. Japan saw its refiners ease off from purchases seen in December and begin to increase exports in January. Kerosene swap prices in Singapore for the near months were roughly balanced but gasoil saw a deepening contango.





Colder weather, in addition to increasing demand for crude used in direct burn, lifted demand by Asian utilities for low-sulphur fuel oil. Low-sulphur waxy residue (LSWR) prices in Singapore posted the second largest gain among products on average in January. LSWR rose $5.81/bbl, the increases also buoyed by reportedly lower LSFO exports from Korea. In contrast, high-sulphur material saw more modest gains. Incoming Western supplies in combination with thin Chinese interest for Singapore material limited price increases. Crack spreads on 180cst and 380cst material fell, reflecting weak demand and ample supplies in the region. Arbitrage material totalled around 2.8 million tonnes in January (a 15-month high), and expectations for February, though lower at about 2.5 million tonnes, were above average volumes seen last year (between 1.7 to 1.8 million tonnes). Distressed cargoes were reported in January outside Singapore, storage of residual fuel oil was high and swaps prices were in contango.

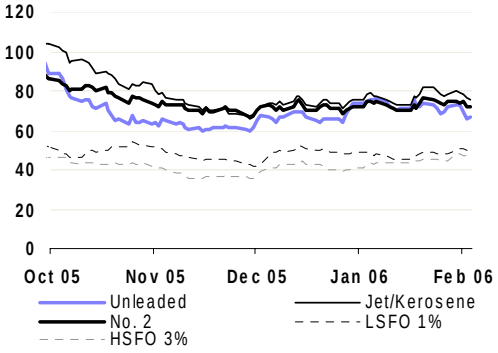
While perhaps not yet a factor in the Singapore HSFO market, reportedly shifting Chinese buying patterns for fuel oil may come to the fore in the mid term. Various market reports seem to suggest that Chinese interest is growing for long haul material, purchased directly from producers (Middle East and Venezuela in addition to Korean and Japanese supplies) rather than traders in Singapore. The shift is said to stem from the desire for better quality material while enjoying lower freight with economies of scale for bulk shipments. When and if this trend is confirmed, it will be interesting to see if Singapore, notably its bunker market, continues to act as a sink and absorbs excess Western fuel oil.

End-User Product Prices in January

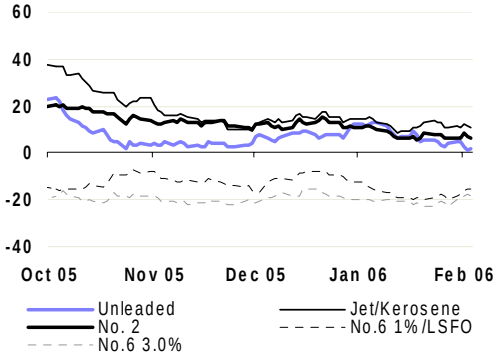
Average end-user prices for products rose across consuming countries surveyed in January. End-user gasoline prices rose significantly in Europe, where French consumers paid nearly 11% more in January than in December (in US dollar terms, excluding tax). Canadian gasoline cost 8.5% more in January, while US drivers experienced a 7.2% increase before tax. Diesel prices in Europe generally rose at a shallower rate and were almost flat in North America. Japanese ex-tax US dollar-based heating oil prices rose by 11% in January following extreme winter temperatures. Low-sulphur fuel costs were up in January, notably in the UK (up 95% on the previous year).

Product Prices and Differentials to Benchmark Crude Oil Prices

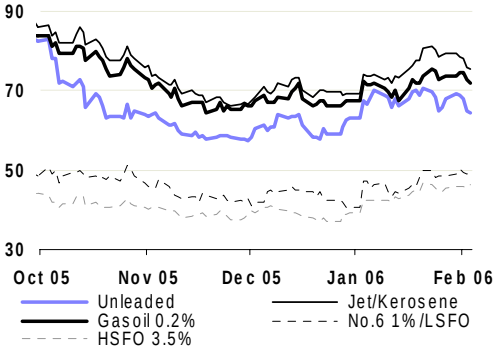
$/bbl **New York Harbour Spot Product Prices** (Fob Barges)



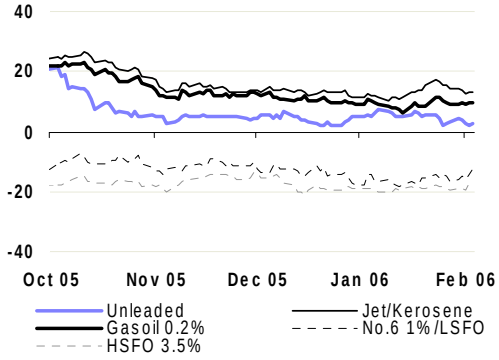
$/bbl **New York Harbour Product Spreads to** WTI (Fob Barges)



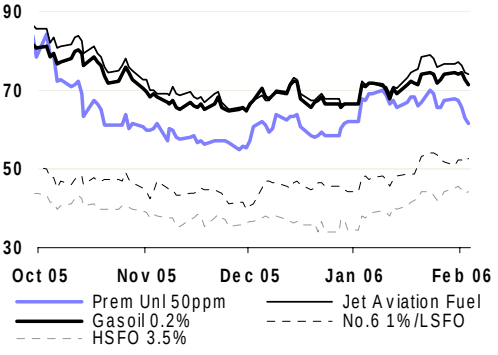
$/bbl **Northwest Europe Spot Product Prices** (Fob Barges)



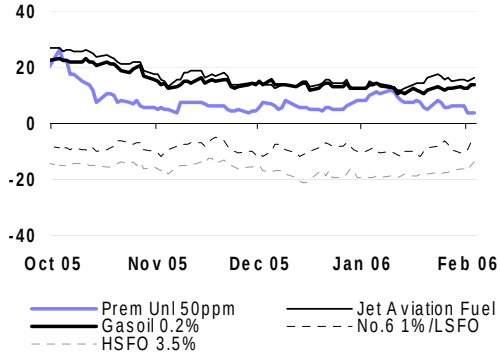
$/bbl **Northwest Europe Product Spreads to** Brent (Fob Barges)



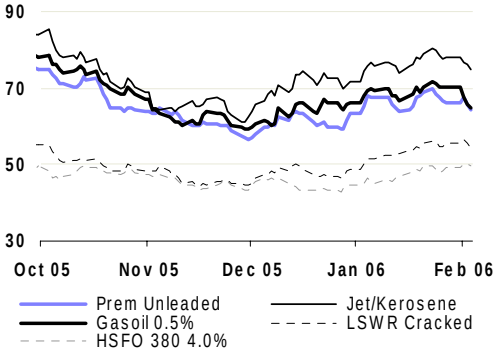
$/bbl **Mediterranean Spot Product Prices (Fob Cargoes)**



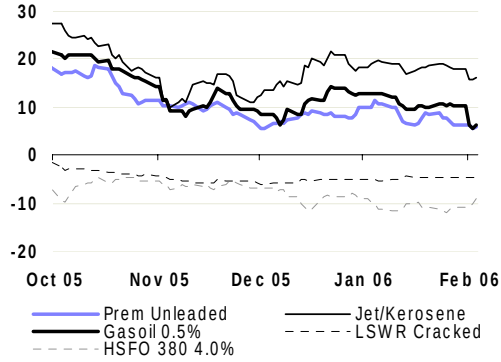
$/bbl **Mediterranean Product Spreads to Urals (Fob Cargoes)**



$/bbl **Singapore Spot Product Prices** (Fob)



$/bbl **Singapore Product Spreads to Dubai** (Fob)



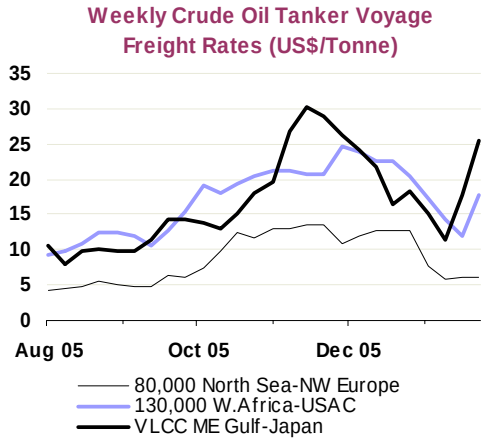
Freight

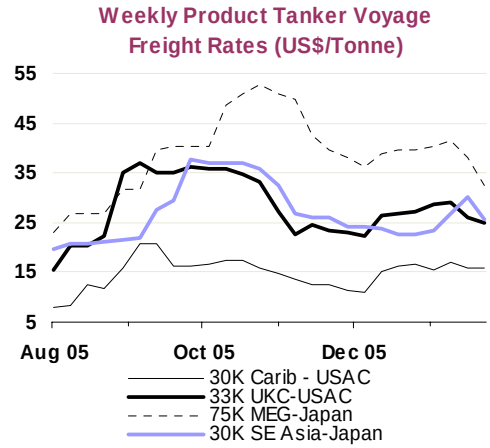
A surge in Asian crude buying in the second half of January contributed to a large rebound in dirty shipping costs. Arabian Gulf routes led the post-New Year increases as charter rates returned towards seasonal peak levels.

January dirty freight rates for Asian destinations from the Arab Gulf (for delivery over the course of February) by and large reflected a seasonal increase in crude demand, with February often a period where runs are at their peak. During December and January, inventories of heating fuels in Northeast Asia declined rapidly, notably in kerosene due to extreme temperatures. This prompted Asian refiners to cover shipping requirements as runs were held high to meet regional demand.

As windows for booking February transportation opened, competition for VLCCs bound for Japan, China, Singapore and India pushed up spot shipping costs from the Arabian Gulf. Average round-trip spot fixture rates for a VLCC carrying a 260,000 tonne cargo from the Gulf to Japan rose from a trough of under $12/tonne on January 13th to a peak of almost $26/tonne on 25 January. This upsurge reversed a previous decline in chartering activity, also observed in other dirty sectors. Preliminary indications at the beginning of February (for March lifting) suggest that chartering eased over the Chinese New-Year holidays and beyond. This may have been partly motivated by anticipation of subsiding winter demand by the end of the first quarter, freeing up vessels.

Transportation costs from the Arabian Gulf to North America also rebounded mid-month, supported by the booking of seven VLCCs by Vela, the chartering arm of Saudi Aramco, in the third week of January. However, comfortable US crude inventories ahead of scheduled maintenance limited the need for stock replenishment. As result, this likely eased the pressure on the global pool of VLCCs.





Eastbound VLCC rates from West Africa rose from under $20/tonne to $27/tonne in the last ten days of January. Average charter rates for a typical Suezmax cargo (130,000 tonnes) from West Africa to the US Gulf rose from $18/tonne to $27/tonne over the same ten-day period, as vessel interest spilled over from the VLCC sector. Charterers sought to exploit cheaper Suezmax costs as the attractiveness of West African grades appeared to improve following three weeks of limited Atlantic Basin vessel demand.

Clean tanker rates fell steadily from late December highs as more clean product vessels became available. Spot arbitrage trade along transatlantic routes weakened by the end of the month with growing product inventories in the US. Shipping costs for clean 25,000 tonne cargoes travelling from North West Europe to the US dropped from over $32/tonne on 12 January to under $26/tonne on 2 February. Asian refiners, however, did continue to supplement high throughput levels with product imports in order to assuage strong domestic demand. Cold European temperatures lent some support to shipping costs within the region for smaller clean product vessels.

Dirty and clean transportation costs in the Mediterranean were sporadically supported by ongoing delays in Bosporus transits and weather-induced port closures in the Black Sea. Loading delays also plagued shippers at Al Basra terminal in Iraq.

REFINERY ACTIVITY

Summary

- **Full cost refining margins** were stronger in the Mediterranean and on the US West Coast in January, but weaker in Asia and the rest of the Atlantic basin. Weaker distillate and fuel oil demand in North America, due to warm weather, undermined product cracks there and had knock-on effects in Europe. Gasoline supply concerns, ahead of US specification changes and a heavy first quarter refinery maintenance programme, boosted gasoline cracks, despite rising US, ARA and Singapore inventories.

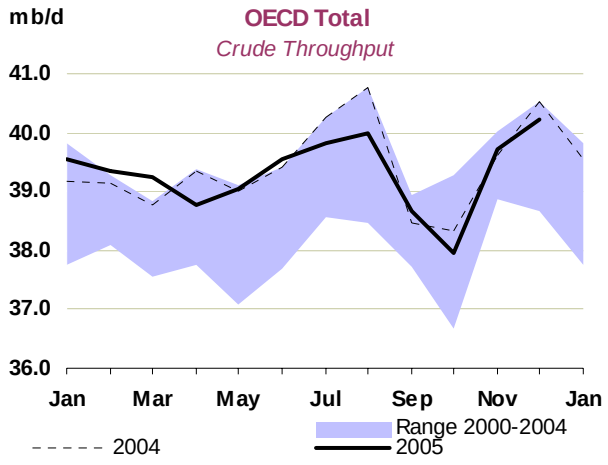
- **US refining margins** weakened on the Gulf Coast as warm weather undermined distillate and fuel oil cracks while gasoline prices, after early January strength, tended to lag the gains in crude. Average cracking margins on Mars and LLS fell by $0.89/bbl and $1.30/bbl respectively. West Coast margins de-coupled from other regions, posting healthy gains. Rising West Coast gasoline and distillate cracks highlight the difficulty non-regional refiners have in meeting product quality standards. Distillate supply tightness was exacerbated by a strong Asian kerosene market.

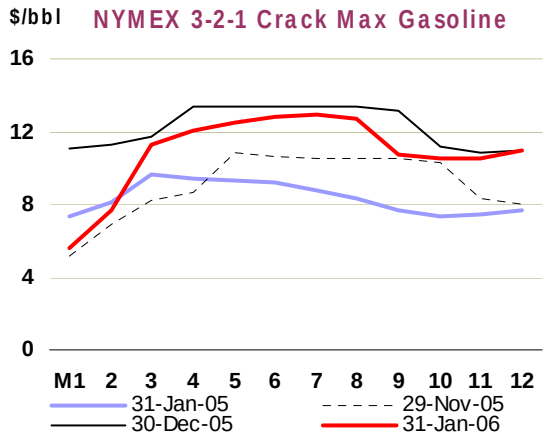
- **European refining margins** improved in the Mediterranean, where cold weather, stronger gasoline prices and limited gains in crude prices all boosted margins. In Northwest Europe margins fell, as lower distillate and fuel oil cracks outweighed the impact of stronger gasoline prices. A tight sour crude market, due to lower Russian exports, pushed up Urals prices relative to light sweet crudes and depressed sour margins. Hydroskimming margins remain negative in Europe, with the deterioration in Northwest Europe's margins offset by gains in the Mediterranean.

- **Asian refining margins** were weaker on the whole in January, despite extremely cold weather in the region. Further strength in light sweet crude prices continued to undermine their respective margins, as refiners sought to maximise kerosene production for heating-related demand in Japan and elsewhere in the region. Only Dubai cracking margins were positive on average, falling by only $0.30/bbl in Singapore and $0.16/bbl in China from December levels as gains in Dubai crude prices trailed those for sweet crudes.

- **OECD throughputs** reached 40.2 mb/d in December, an increase of 0.5 mb/d from November's upwardly revised levels, but 0.32 mb/d below December 2004. Near-record throughputs in the Pacific and Europe continued to mitigate the loss of 0.8 mb/d of US capacity which was offline during the month.

- **The front month 3-2-1 NYMEX crack spread** retained its overall structure, continuing to price the summer months at around $12/bbl. However weakness in the front months reflected the weak prompt demand for distillate and strong crude prices in the US. Front month values had fallen to below $6/bbl by early February from the previously stable level of $10/bbl.





Refining Margins

Refining margins started the year in a positive fashion in Europe due to cold weather and the temporary reduction of imported Russian natural gas supplies. In the US and Asia, however, gains in product prices were broadly outpaced by those for crude, most notably for Tapis. Margins progressively weakened over the month, with Asia particularly hard hit. Warm weather in the US weighed on distillate and fuel oil differentials to crude on the US Gulf Coast and in Northwest Europe. This reduced the effect of rising gasoline prices, which increased in absolute terms and relative to crude in almost every region covered in this Report.

Typically distillate markets are the main driver of refinery margins at this time of year. However, concerns in the US over the impact of specification changes and market expectations for a relatively heavy first quarter refinery maintenance season lent support to gasoline values. The US West Coast saw the biggest gain in gasoline prices for the regions surveyed in this Report, with gasoline cracks increasing by around $10/bbl in January. However, it is likely that around half of this increase was specific to Los Angeles prices, ahead of the seasonal changeover to lower RVP specification material which limited supplies. Despite the weaker refining margin environment seen during January for most of the regions covered, the futures market continues to suggest that refiners should maximise crude throughputs ahead of the summer months. NYMEX 3-2-1 crack spreads continue to price summer months at around $12/bbl, significantly above prompt levels.

Selected Refining Margins in Major Refining Centres

($/bbl)

		Monthly Average			Change	Week Ending:				
		Nov 05	Dec 05	Jan 06	Jan 06-Dec 05	06 Jan	13 Jan	20 Jan	27 Jan	03 Feb
NW Europe	Brent (Cracking)	3.06	2.21	2.16	-0.05	2.93	1.45	2.59	0.96	1.36
	Urals (Cracking)	5.75	4.69	4.35	-0.34	6.09	3.59	4.21	2.43	3.28
	Brent (Hydroskimming)	-0.45	-1.32	-2.32	-1.00	-1.96	-3.26	-1.69	-3.23	-1.95
	Urals (Hydroskimming)	-0.04	-1.50	-2.42	-0.92	-1.42	-3.03	-2.48	-3.91	-2.14
Mediterranean	Es Sider (Cracking)	2.23	1.83	3.68	1.85	4.74	3.16	2.94	2.09	3.26
	Urals (Cracking)	4.19	3.10	4.36	1.25	5.29	3.53	3.41	3.49	4.03
	Es Sider (Hydroskimming)	-1.54	-2.11	-0.95	1.17	-0.43	-1.30	-0.97	-2.34	0.32
	Urals (Hydroskimming)	-1.87	-3.78	-3.03	0.75	-2.97	-3.54	-3.35	-3.22	-1.49
US Gulf Coast	Brent (Cracking)	-1.93	-1.42	-1.70	-0.28	-0.58	-2.33	-1.00	-2.42	-2.73
	LLS (Cracking)	0.40	2.22	0.92	-1.30	3.30	-0.35	0.50	-0.21	-0.76
	Mars (Cracking)	-0.78	1.72	0.83	-0.89	1.86	-0.66	0.76	0.63	1.05
	Mars (Coking)	5.27	7.58	6.13	-1.45	8.22	4.62	5.92	5.42	5.25
	Maya (Coking)	9.69	11.84	11.94	0.10	14.84	11.39	11.87	10.63	8.22
US West Coast	ANS (Cracking)	0.06	-0.64	2.88	3.51	3.79	1.09	2.42	2.67	1.54
	Kern (Cracking)	2.08	2.41	4.32	1.91	5.88	3.10	4.05	5.75	4.52
	Oman (Cracking)	-1.69	-2.19	1.89	4.08	3.62	0.60	2.56	2.45	0.46
	Kern (Coking)	6.76	5.60	14.21	8.61	16.29	10.95	16.24	16.42	13.20
Singapore	Dubai (Hydroskimming)	-2.11	-2.20	-2.98	-0.78	-1.93	-2.89	-3.36	-4.22	-4.52
	Tapis (Hydroskimming)	-4.90	-6.66	-8.39	-1.74	-7.05	-9.22	-8.58	-9.77	-10.38
	Dubai (Hydrocracking)	0.74	1.13	0.83	-0.30	2.41	0.50	0.32	-0.73	-1.73
	Tapis (Hydrocracking)	-2.73	-4.35	-6.13	-1.78	-4.39	-7.22	-6.44	-7.79	-8.62
China	Cabinda (Hydroskimming)	-4.86	-3.56	-4.09	-0.54	-4.44	-4.10	-4.98	-6.12	-5.72
	Daqing (Hydroskimming)	-4.00	-3.08	-5.64	-2.55	-5.17	-5.91	-6.03	-6.40	-6.59
	Dubai (Hydroskimming)	-3.00	-2.87	-3.52	-0.65	-2.32	-3.16	-3.91	-5.10	-5.35
	Daqing (Hydrocracking)	-0.22	0.87	-1.57	-2.44	-0.54	-2.43	-1.86	-2.64	-2.75
	Dubai (Hydrocracking)	-0.23	0.43	0.27	-0.16	2.00	0.11	-0.22	-1.56	-2.55

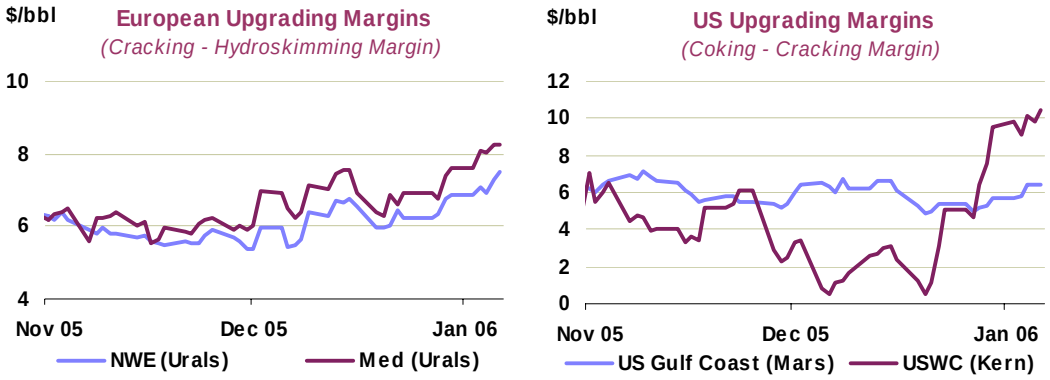
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimized for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability 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.

US Gulf Coast margins on domestic sweet and medium sour crude grades weakened during January from the peak seen in late December. Warm weather reduced heating-related demand and limited price increases compared to strengthening crude values. Distillate crack values were significantly

weaker as a result, as were gasoline cracks to a lesser extent. Similarly, low-sulphur fuel oil cracks fell by over $7/bbl as demand from utilities declined, with warm weather and significantly lower natural gas prices, forcing surplus cargoes to discount sufficiently to move out of the region. Mars average cracking margins fell by $0.89/bbl, compared to the $1.30/bbl decline for LLS, due to its lower distillate yield and high-sulphur fuel oil yield. The continued relative weakness of sweet versus sour cracking margins has reduced the differential between them to nine cents per barrel, its lowest level since January 2005, having peaked at over $6/bbl last September. While Mars coking margins were $1.45/bbl weaker for the month, Maya coking margins were $0.10/bbl higher, as the price for Maya crude lagged the price gains of domestic sour grades.

US West Coast margins de-coupled from the weakness seen in other regions, driven by higher gasoline values and stronger distillate cracks. In addition to the location-specific issues already highlighted, the tighter Pacific markets for kerosene and distillate will have reduced the availability and increased costs for imports of these grades. Although there is little scheduled maintenance expected in the coming months, alternative supplies for the region remain difficult given the stringent product specifications and limited refining capacity nearby. Average coking margins for Kern increased by over $8/bbl in January from December. Cracking margins for Kern and ANS also increased, but weaker fuel oil cracks limited overall gains to a more modest average increase of $2-3.5/bbl.

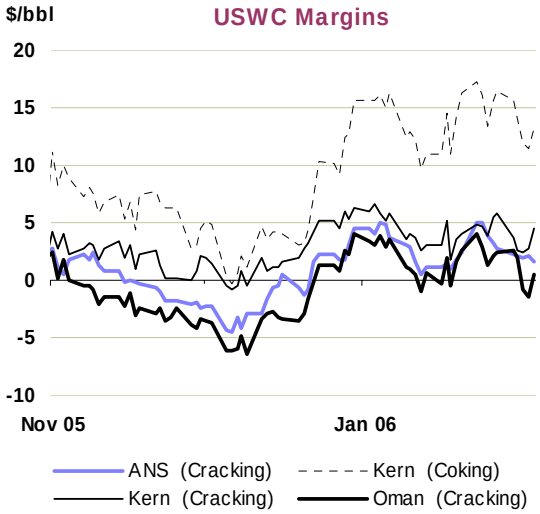


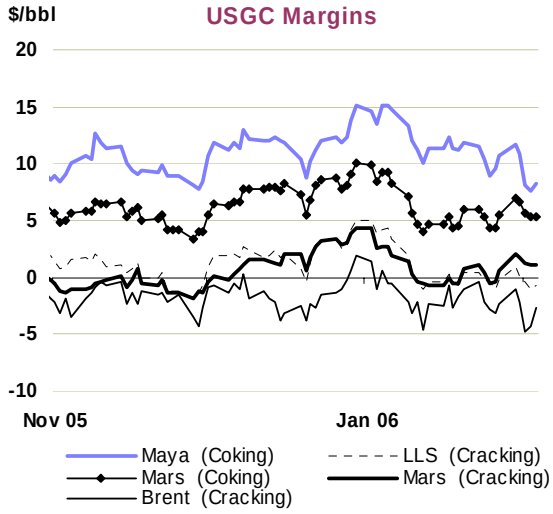
European margins were weaker in Northwest Europe, but stronger in the Mediterranean on average in January. In Northwest Europe the cold weather proved insufficient to support gasoil cracks against rising crude prices, while the gains in gasoline and jet values were insufficient to offset the losses on diesel and fuel oil. In the Mediterranean the cold weather and temporary reduction in natural gas supplies from Russia helped to boost LSFO demand as Italian electricity utilities tried to offset lower natural gas supplies. Indications are that this additional demand will continue over the coming months, probably until the second quarter. Urals cracking margins averaged $4.35/bbl in Northwest Europe and $4.36/bbl in the Mediterranean. This is the first time that cracking margins in the Med have been more profitable than in Northwest Europe since June 2003. Hydroskimming margins in Northwest Europe moved further into negative territory in January, while those in the Mediterranean improved, particularly for light sweet crudes, mainly due to stronger jet and gasoline cracks and smaller declines in gasoil and LSFO.

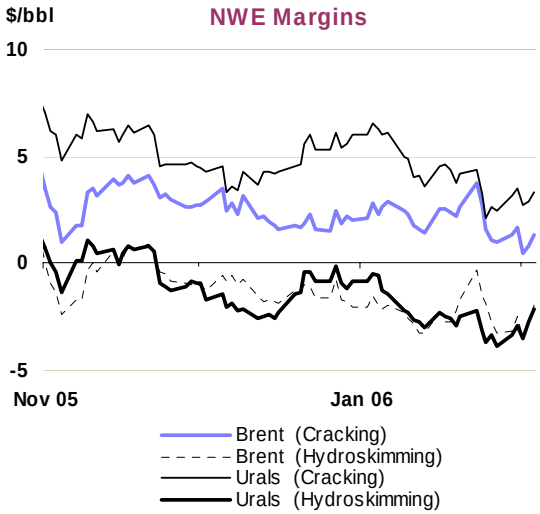
Pacific average margins were weaker across-the-board. Hydroskimming margins were particularly weak, with the decline associated with processing light sweet crudes exceeding those seen for medium sour crudes for the second month running. This was largely the result of supply disruptions, strengthening prices for light sweet crude grades in Asia. Ample availability of medium sour grades kept margins for Dubai hydrocracking positive in January. However, margins for cracking light sweet crude such as Tapis and Daqing, decreased for a second month, from the poor, and in some cases negative, levels seen in December. Upgrading margins for Dubai outperformed sweet crudes helped by the relative weakness in high-sulphur fuel oil prices and strength of low-sulphur waxy residue. HSFO prices remained relatively depressed on large volumes of imports from the Europe.

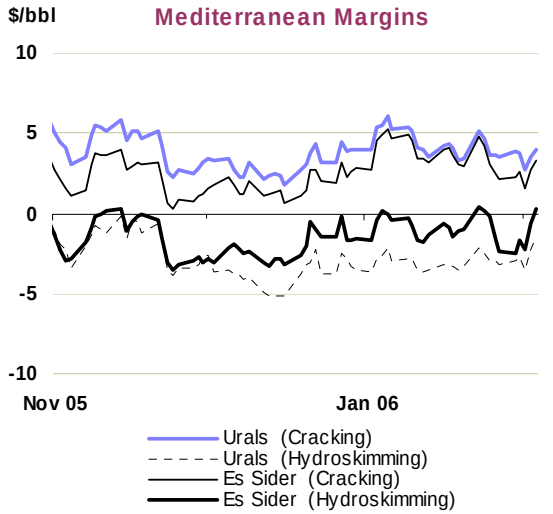
This Report's methodology (as outlined in the annual statistical supplement) for estimating margins does not capture the seasonal swing in product yields and consequently it may understate the benefit refiners are seeing from strong kerosene values. Nevertheless, some Pacific refiners are reported to be considering cutting runs in the face of poor economics, which is in line with the weak margins seen in this Report for the region.

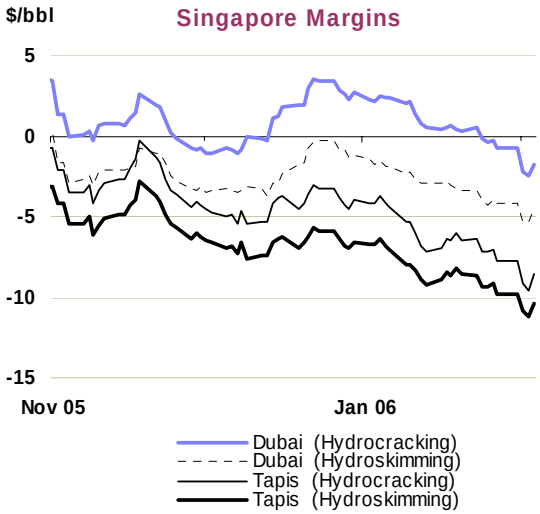
Regional Full-Cost Refining Margins

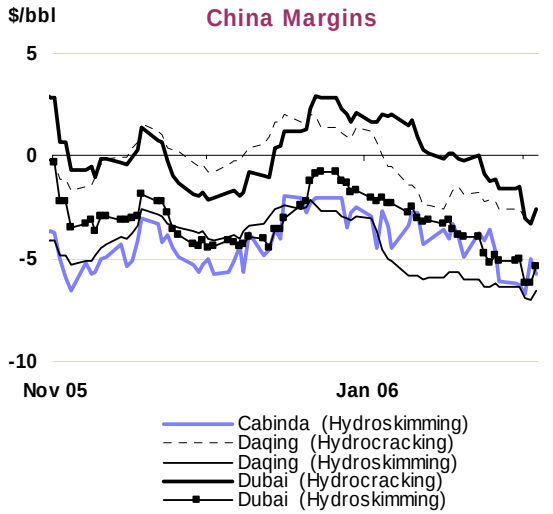












In early February, margins in Asia saw renewed weakness with the arrival of warmer weather and continued strong crude prices. European hydroskimming margins were stronger, briefly turning positive in the Mediterranean on sweet crudes, as LSFO and gasoil prices lagged the weakness in regional crude prices. US Gulf Coast and West Coast margins weakened as rising inventory levels in the US pressured prompt product prices. The exception was Mars cracking margins, where competition from Canadian medium sour crudes increased Mars' discount to WTI and allowed margins to rebound slightly.

Refinery Throughput

OECD refinery throughputs increased by 487 kb/d in December from November's level, averaging 40.2 mb/d. This represents the fourth highest monthly average since 1990, but still 316 kb/d below December 2004 levels. The increase from November reflects a further increase in crude runs in North America of 202 kb/d and in Asia of 381 kb/d, while European throughputs fell by 96 kb/d. North American refinery runs in December were 18.25 mb/d or 487 kb/d lower year-on-year while European runs fell 42 kb/d year-on-year to 14.24 mb/d. In the Pacific, throughputs increased as refiners sought to replenish kerosene stocks following the cold weather. Crude runs averaged 7.72 mb/d, an increase of 213 kb/d from December 2004 and the highest level in nearly three years.

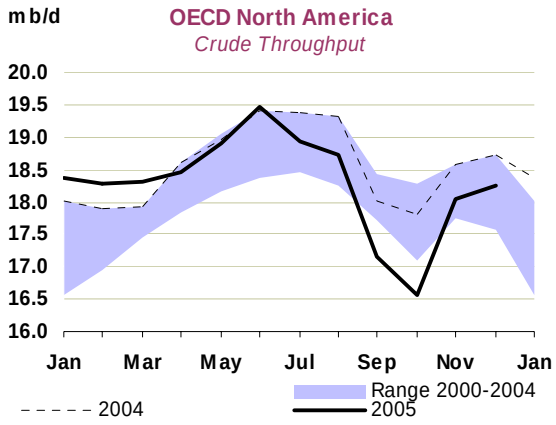
Refinery Crude Throughput and Utilisation in OECD Countries

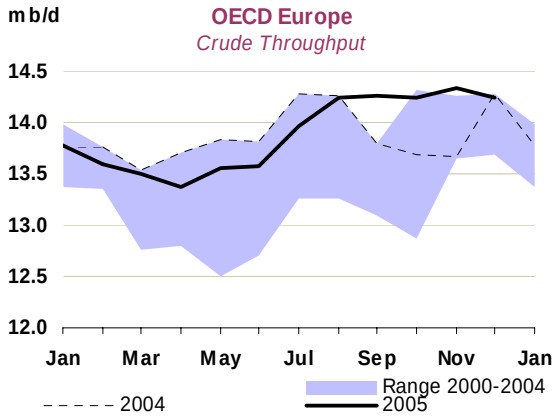
	million barrels per day						*Change from*	*Dec 04*	Utilisation rate[2]	
	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	mb/d	%	Dec 05	Dec 04
OECD North America										
US[3]	15.91	15.62	13.97	13.65	15.02	15.14	-0.61	-3.9	88.78	93.06
Canada	1.79	1.83	1.89	1.75	1.84	1.80	0.11	6.2	89.26	85.29
Mexico	1.23	1.28	1.28	1.18	1.18	1.31	0.02	1.8	78.00	71.96
Total	18.93	18.73	17.14	16.58	18.05	18.25	-0.49	-2.6	87.95	90.97
OECD Europe										
France	1.76	1.78	1.75	1.57	1.86	1.83	-0.01	-0.7	93.66	94.36
Germany	2.30	2.43	2.44	2.37	2.40	2.40	0.07	3.1	97.81	94.91
Italy	1.93	1.91	2.02	2.05	1.98	1.93	-0.03	-1.4	83.37	84.88
Netherlands	0.95	1.04	1.07	1.02	1.09	1.04	-0.02	-2.3	84.68	87.08
Spain	1.26	1.20	1.23	1.29	1.24	1.25	-0.03	-2.5	97.98	100.46
UK	1.75	1.69	1.71	1.71	1.64	1.69	-0.08	-4.8	92.37	97.46
Other OECD Europe	4.03	4.20	4.02	4.23	4.13	4.11	0.07	1.7	87.99	86.44
Total	13.96	14.25	14.26	14.24	14.34	14.24	-0.04	-0.3	90.60	90.98
OECD Pacific										
Japan	3.96	4.17	4.17	4.08	4.14	4.47	0.22	5.2	95.01	90.37
Korea	2.25	2.16	2.35	2.39	2.52	2.54	0.06	2.3	98.41	97.38
Other OECD Pacific	0.70	0.67	0.73	0.69	0.69	0.72	-0.07	-8.6	83.55	91.32
Total	6.91	7.00	7.25	7.16	7.34	7.72	0.21	2.8	94.87	92.67
OECD Total	39.80	39.98	38.66	37.97	39.73	40.22	-0.32	-0.8	90.15	91.28

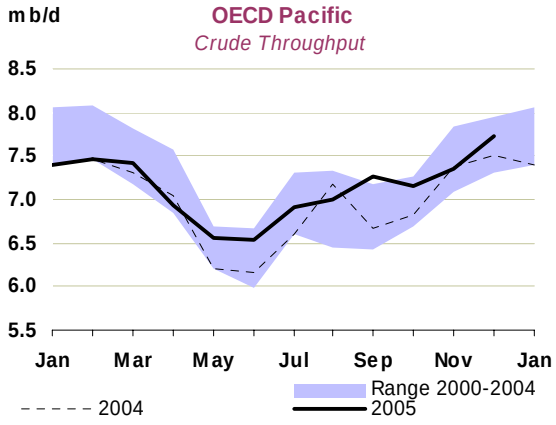
1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

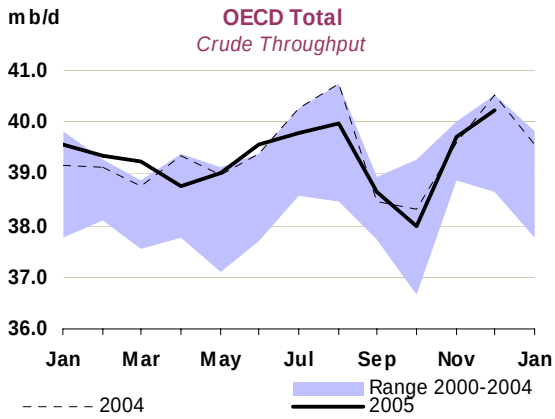
US throughputs increased by 112 kb/d in December to average 15.14 mb/d. This is 615 kb/d lower than in December 2004 as three US Gulf Coast refineries, accounting for 800 kb/d of capacity remain offline. Capacity utilisation for North America averaged 88% in December, 3% below December 2004's level. Adjusting for the offline capacity on the US Gulf Coast, capacity utilisation averaged 93.2%, just below year ago levels of 93.5%. Increases in crude runs in other US regions, as well as Canada and Mexico, were seen during December. Mexican throughputs increased by 23 kb/d from December 2004 levels, while Canadian throughputs was estimated to be 105 kb/d higher.

Updated restart dates for the three refineries still offline in the US Gulf Coast now envisage full production being achieved late in the first quarter at the Belle Chasse refinery and during the second quarter for Meraux and Texas City. A survey of publicly available refinery maintenance activity suggests that turnaround activity should already be underway at several refineries, with average capacity offline of around 250 kb/d during January and February, primarily on the US Gulf Coast. Offline capacity is expected to increase over the month before peaking at 750 kb/d in March.

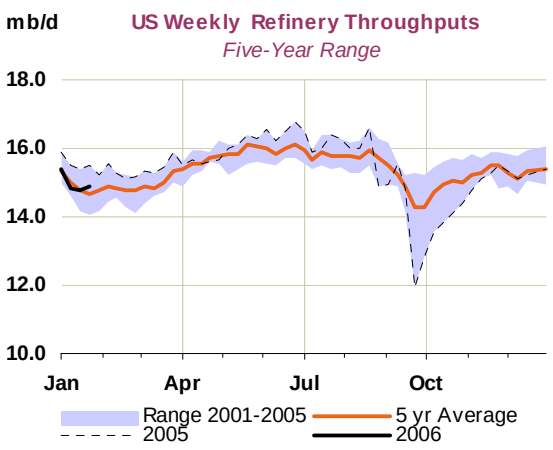


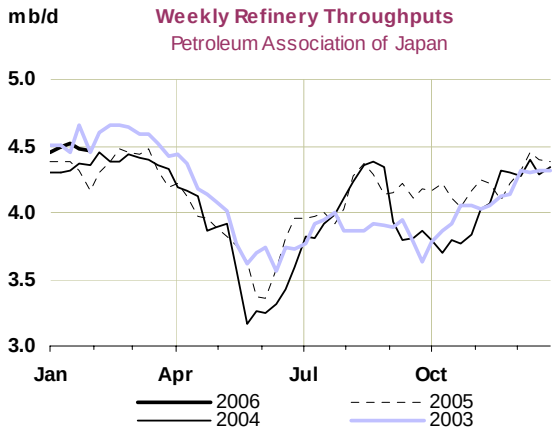




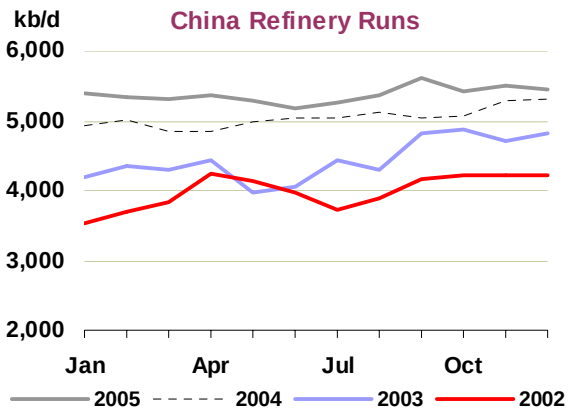


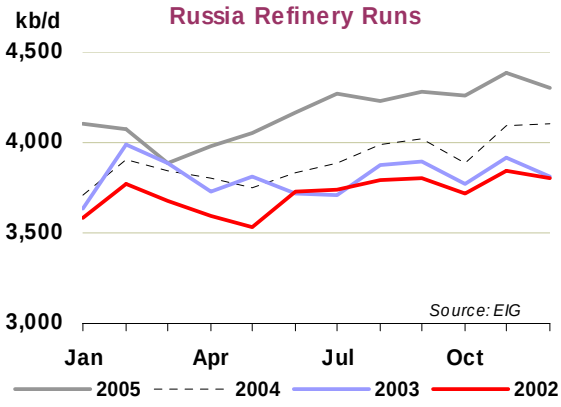
OECD Europe refinery runs were 14.24 mb/d in December, a decline of 95 kb/d from November's near record level, which has been revised up slightly, to 14.34 mb/d. Increases of around 50 kb/d in the UK and Belgium were offset by declines in France, Italy, the Netherlands and Portugal, all of whose throughputs were near recent highs during November. The drop in crude throughputs in these countries possibly highlights the impact of lower margins on refinery runs. As a result European capacity utilisation for December was 90.6%, inline with the prior year level and just below the 91.2% seen in November.





December OECD Pacific throughputs of 7.72 mb/d were 213 kb/d higher than prior year levels, and 381 kb/d above November's level of 7.34 mb/d. Japan lead the increase in crude runs with throughputs rising 334 kb/d to 4.47 mb/d, the highest level in almost three years and a capacity utilisation rate of 95%. Korea's crude runs of 2.54 mb/d were similarly strong, effectively matching their highest throughputs level in the last 5 years and equivalent to a capacity utilisation rate of 98.4%. In the New Year Japanese refineries have continued to operate at near record levels, according to weekly data. The trailing four-week average in early February is around 4.49 mb/d, an increase of 152 kb/d from prior year levels and little changed from a weekly average throughputs of 4.51 mb/d in early January. Recently published estimates of maintenance activity in Japan suggests that May will see the start of the annual turnaround season in earnest, with approximately 680 kb/d, (nearly 15%), of crude distillation capacity, offline on average. This level of offline capacity should be repeated in June before activity levels fall back to 80 kb/d in August. Estimates for Korea suggest that maintenance will start with 100 kb/d offline in April and May, before rising to 320 kb/d in June, equivalent to over 12% of available capacity.





Reported data for China and Russia indicate that both countries' throughputs fell slightly in December from November. Russian crude throughputs averaged 4.3 mb/d, a drop of 93 kb/d from November but still 190 kb/d above the prior year's level. Chinese data, as reported for the two main domestic refiners CNPC and Sinpoec, also point to a narrowing of the year-on-year increase as crude runs dipped 60 kb/d to 5.44 mb/d, only 22 kb/d above the December 2004 level.

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	25.5	25.5	25.6	25.6	26.1	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	15.7	15.6	15.7	15.2	15.6	15.9	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.1	8.1	8.8	8.6	9.5	8.1	8.2	9.0	8.7
Total OECD	48.0	48.6	50.2	48.1	49.2	50.5	49.5	50.6	48.7	49.3	50.0	49.6	50.8	48.9	49.9	51.2	50.2
NON-OECD DEMAND																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.8	3.8	3.7	3.8	3.9	3.8	3.9	3.8	3.9	4.1	3.9
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	6.8	6.6	6.8	6.9	7.0	7.3	7.0
Other Asia	8.0	8.0	8.5	8.6	8.4	8.8	8.6	8.8	8.8	8.6	8.8	8.7	8.9	9.0	8.8	9.1	8.9
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	6.2	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	33.5	32.7	33.6	33.3	33.7	34.0	33.6	34.6	34.6	34.8	35.5	34.9
Total Demand[1]	77.7	79.2	82.3	80.8	81.8	84.0	82.2	84.1	82.0	82.9	84.1	83.3	85.4	83.5	84.7	86.7	85.1
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	14.4	14.3	14.2	14.4	14.3
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.7	5.4	5.5	5.6	5.6	5.4	5.1	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	0.5	0.5	0.6	0.6	0.5
Total OECD	21.9	21.6	21.8	21.5	20.8	21.0	21.3	20.9	20.9	19.8	19.7	20.3	20.5	20.2	19.9	20.4	20.2
NON-OECD SUPPLY																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.5	11.5	11.7	11.9	11.6	11.9	12.2	12.3	12.4	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	2.6	2.7	2.8	2.7	2.8	2.8	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	4.3	4.3	4.4	4.4	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	1.8	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	4.0	4.2	4.3	4.4	4.2
Total Non-OECD	24.5	25.7	26.5	26.8	27.3	27.5	27.0	27.5	27.7	28.2	28.5	28.0	28.7	29.2	29.5	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[3]	48.1	49.1	50.1	50.1	49.9	50.3	50.1	50.3	50.5	49.8	50.1	50.2	51.1	51.3	51.3	52.1	51.4
OPEC																	
Crude[4]	25.1	26.8	27.9	28.0	29.1	29.5	28.6	28.7	29.3	29.5	29.4	29.2					
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	5.1	5.2	5.1
Total OPEC	28.8	30.7	32.2	32.3	33.4	33.9	33.0	33.4	34.0	34.3	34.2	34.0					
Total Supply[5]	76.9	79.7	82.3	82.5	83.3	84.2	83.1	83.8	84.5	84.0	84.3	84.1					
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	0.2	-0.5	0.1					
Government	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.3	0.0	-0.1	0.1					
Total	-0.3	0.3	-0.4	0.9	0.5	-0.1	0.2	0.0	1.2	0.2	-0.6	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	0.0	0.2	-0.1					
Miscellaneous to balance[6]	-0.5	0.1	0.7	0.8	0.7	0.1	0.6	0.0	1.1	0.9	0.7	0.7					
Total Stock Ch. & Misc	-0.8	0.5	0.0	1.6	1.5	0.2	0.8	-0.4	2.4	1.1	0.2	0.8					
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	26.9	28.4	29.2	28.4	29.4	27.2	28.3	29.5	28.6
Total Demand ex. FSU	74.2	75.6	78.7	77.1	78.0	80.0	78.5	80.3	78.3	79.2	80.2	79.5	81.4	79.7	80.8	82.6	81.1
Total demand exc. FSU (% ch)[8]	1.1	1.9	3.5	4.8	3.5	3.3	3.8	2.0	1.6	1.4	0.2	1.3	1.4	1.7	2.1	3.1	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 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	-	-	-	-	-	-	-	-	-	-	-0.2	-	0.1	-	-	-0.1	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-0.2	-0.1	-	-0.1	-0.1	-0.1	-0.1
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	0.1	0.1	0.2	-	0.1	0.1	0.1	0.1	0.1	0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-0.1	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	0.1	-	0.1	0.1	0.1	-0.1	0.1	-	0.1	0.1	-0.1	-
Total Demand	-	-	-	-	-	0.1	-	0.1	0.1	0.1	-0.4	-	-	-	-	-0.2	-0.1
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	0.1	-	0.1	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	0.1	-
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1	0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-0.1	-
Total Non-OECD	-	-	-	-	-	-	-	0.1	-	-	-0.1	-	-0.1	0.1	0.1	0.1	-
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	0.1	-	-	-	-	-0.2	-	0.1	0.1	-
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-	-	-					
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-
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	-	-	-	-	-	-	-	-	-0.1	-							
Total Stock Ch. & Misc	-	-	-	-	-	-	-	-	-0.1	-0.1	0.4	-					
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-	-	-	-	-	-	0.1	0.1	-0.4	-	0.2	-	-0.1	-0.2	-
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-	-	-0.4	-0.1	-0.1	-0.1	-0.2	-0.3	-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	25.48	25.50	25.45	25.60	25.63	26.05	26.29	25.89
Europe	15.43	15.66	15.20	15.60	16.02	15.62	15.56	15.30	15.71	15.70	15.57	15.68	15.23	15.59	15.92	15.60
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.10	8.10	8.84	8.63	9.54	8.10	8.24	8.99	8.71
Total OECD	48.65	50.17	48.13	49.17	50.48	49.49	50.57	48.70	49.30	50.04	49.65	50.82	48.95	49.88	51.20	50.21
FSU	3.59	3.51	3.72	3.79	4.00	3.76	3.82	3.71	3.79	3.90	3.81	3.93	3.82	3.90	4.08	3.93
Europe	0.69	0.76	0.70	0.66	0.71	0.71	0.78	0.72	0.67	0.72	0.72	0.80	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	6.80	6.60	6.82	6.85	6.98	7.27	6.98
Other Asia	8.05	8.47	8.57	8.39	8.80	8.56	8.82	8.78	8.58	8.76	8.73	8.93	8.95	8.77	9.08	8.93
Latin America	4.67	4.71	4.87	4.96	4.89	4.86	4.85	5.01	5.06	4.99	4.98	4.96	5.12	5.18	5.11	5.09
Middle East	5.27	5.54	5.48	5.81	5.64	5.62	5.83	5.77	6.10	5.92	5.91	6.12	6.07	6.39	6.22	6.20
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	32.09	32.72	32.66	33.50	32.74	33.57	33.34	33.65	34.02	33.65	34.56	34.56	34.82	35.52	34.87
World	79.21	82.26	80.85	81.83	83.98	82.23	84.14	82.04	82.95	84.05	83.30	85.38	83.51	84.70	86.71	85.08
of which:																
US	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.80*	*20.66*	*20.86*	*20.77*	*20.77*	*20.84*	*20.95*	*21.28*	*21.41*	*21.12*
Euro4	*8.30*	*8.39*	*8.10*	*8.36*	*8.48*	*8.34*	*8.19*	*8.06*	*8.37*	*8.18*	*8.20*	*8.14*	*7.99*	*8.20*	*8.29*	*8.16*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.99*	*5.08*	*5.52*	*5.41*	*6.09*	*4.93*	*5.11*	*5.57*	*5.42*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.00*	*2.22*	*2.17*	*2.39*	*2.09*	*2.05*	*2.31*	*2.21*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.04*	*2.07*	*2.05*	*2.11*	*2.12*	*2.11*	*2.14*	*2.12*
Canada	*2.21*	*2.30*	*2.20*	*2.31*	*2.36*	*2.29*	*2.35*	*2.23*	*2.25*	*2.30*	*2.28*	*2.27*	*2.22*	*2.31*	*2.36*	*2.29*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.11*	*2.17*	*2.24*	*2.20*	*2.18*	*2.15*	*2.22*	*2.29*	*2.25*	*2.23*
India	*2.47*	*2.66*	*2.65*	*2.49*	*2.65*	*2.61*	*2.77*	*2.64*	*2.53*	*2.59*	*2.63*	*2.81*	*2.69*	*2.55*	*2.67*	*2.68*
Annual Change (% per annum)																
North America	1.7	3.1	3.8	2.9	3.5	3.3	1.2	1.1	0.3	-0.7	0.5	0.3	1.3	2.2	3.1	1.7
Europe	1.0	1.4	0.4	0.9	2.3	1.3	-0.7	0.6	0.7	-2.0	-0.4	0.8	-0.5	-0.8	1.4	0.2
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.5	-0.7	0.8	1.2	0.6	-0.1	1.7	1.6	1.0
Total OECD	1.4	1.1	1.7	2.2	1.9	1.7	0.8	1.2	0.3	-0.9	0.3	0.5	0.5	1.2	2.3	1.1
FSU	3.2	-8.2	16.0	10.5	2.8	4.7	8.7	-0.2	0.0	-2.4	1.3	2.9	2.8	3.0	4.6	3.3
Europe	3.8	2.5	2.5	3.0	3.1	2.8	2.6	2.6	2.0	1.8	2.2	2.9	2.0	2.0	2.1	2.3
China	11.0	18.0	23.4	9.2	12.0	15.4	4.3	-1.9	4.9	3.0	2.5	4.2	6.9	5.3	6.9	5.8
Other Asia	1.2	6.8	8.9	5.3	4.6	6.3	4.2	2.4	2.3	-0.6	2.1	1.2	2.0	2.2	3.7	2.3
Latin America	-1.8	4.8	5.0	3.9	2.8	4.1	3.0	2.9	2.1	2.0	2.5	2.1	2.2	2.4	2.5	2.3
Middle East	1.9	5.9	9.4	5.9	5.1	6.5	5.3	5.3	5.0	4.9	5.1	5.0	5.2	4.8	5.1	5.0
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	5.4	7.1	4.6	1.9	3.0	1.6	2.8	2.9	3.7	3.5	4.4	3.6
World	2.0	3.0	5.3	3.8	3.2	3.8	2.3	1.5	1.4	0.1	1.3	1.5	1.8	2.1	3.2	2.1
Annual Change (mb/d)																
North America	0.40	0.76	0.93	0.70	0.86	0.81	0.31	0.27	0.07	-0.19	0.11	0.07	0.33	0.57	0.79	0.44
Europe	0.16	0.22	0.05	0.14	0.36	0.20	-0.11	0.10	0.11	-0.32	-0.06	0.12	-0.07	-0.12	0.23	0.04
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.20	-0.06	0.07	0.10	0.06	-0.01	0.14	0.14	0.08
Total OECD	0.69	0.57	0.79	1.07	0.93	0.84	0.40	0.57	0.13	-0.44	0.16	0.24	0.25	0.59	1.16	0.56
FSU	0.11	-0.31	0.51	0.36	0.11	0.17	0.31	-0.01	0.00	-0.10	0.05	0.11	0.10	0.11	0.18	0.13
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	0.02
China	0.55	0.96	1.24	0.53	0.71	0.86	0.27	-0.12	0.31	0.20	0.16	0.27	0.44	0.35	0.47	0.38
Other Asia	0.09	0.54	0.70	0.43	0.38	0.51	0.36	0.21	0.19	-0.05	0.18	0.11	0.17	0.19	0.32	0.20
Latin America	-0.08	0.22	0.23	0.18	0.13	0.19	0.14	0.14	0.11	0.10	0.12	0.10	0.11	0.12	0.12	0.11
Middle East	0.10	0.31	0.47	0.33	0.27	0.34	0.29	0.29	0.29	0.28	0.29	0.29	0.30	0.29	0.30	0.30
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	0.08	0.09	0.08
Total Non-OECD	0.84	1.80	3.27	1.95	1.71	2.18	1.48	0.62	0.99	0.52	0.90	0.99	1.22	1.17	1.50	1.22
World	1.53	2.37	4.06	3.02	2.64	3.02	1.89	1.19	1.11	0.08	1.06	1.23	1.47	1.75	2.66	1.78
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-	-	-	-	-	-	-0.01	-0.04	-0.01	-0.12	-0.01	-0.02	-0.05	-0.05
Europe	-	-	-	-	-	-	-	-	-	-0.17	-0.04	0.14	-0.03	-0.05	-0.05	-
Pacific	-	-	-	-	-	-	-	-	-	-0.02	-	-0.03	-0.01	-0.01	-0.02	-0.02
Total OECD	-	-	-	-	-	-	-	-	-0.02	-0.22	-0.06	-0.01	-0.06	-0.08	-0.13	-0.07
FSU	-	0.01	0.01	0.01	0.02	0.01	0.09	0.14	0.16	0.04	0.11	0.11	0.14	0.14	0.08	0.12
Europe	-	-	-	-	-	-	-	-	-	-	-	0.01	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-0.10	-0.02	-0.03	-0.02	-0.02	-0.06	-0.03
Other Asia	-	-	-	-	0.03	0.01	-	-	-0.02	-0.07	-0.02	-0.07	-0.03	-0.03	-0.06	-0.05
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-0.01	-0.01	-0.03	-0.01	-0.02	-0.02	-0.02	-0.03	-0.03
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	0.01	0.01	0.01	0.05	0.02	0.09	0.14	0.13	-0.15	0.05	-0.01	0.08	0.06	-0.08	0.01
World	-	0.01	0.01	0.01	0.05	0.02	0.09	0.14	0.11	-0.37	-0.01	-0.02	0.02	-0.02	-0.21	-0.06

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	3Q05	4Q05	1Q06	2Q06	3Q06	Nov 05	Dec 05	Jan 06
OPEC											
Crude Oil											
Saudi Arabia	8.75	9.15		9.26	9.21				9.26	9.21	9.20
Iran	3.93	3.88		3.81	3.89				3.85	3.89	3.92
Iraq	1.99	1.81		1.96	1.66				1.70	1.54	1.50
UAE	2.35	2.45		2.53	2.56				2.56	2.56	2.48
Kuwait	2.05	2.13		2.11	2.20				2.19	2.21	2.22
Neutral Zone	0.60	0.58		0.57	0.58				0.59	0.59	0.60
Qatar	0.77	0.80		0.80	0.83				0.83	0.83	0.83
Nigeria	2.32	2.40		2.39	2.45				2.47	2.46	2.42
Libya	1.55	1.64		1.65	1.65				1.65	1.65	1.65
Algeria	1.20	1.34		1.36	1.37				1.37	1.37	1.36
Venezuela	2.17	2.10		2.10	2.08				2.14	2.05	2.13
Indonesia	0.97	0.94		0.94	0.94				0.95	0.94	0.92
Total Crude Oil	28.64	29.23		29.47	29.41				29.54	29.28	29.21
Total NGLs[1]	4.32	4.74	5.06	4.79	4.80	4.92	5.01	5.13	4.73	4.85	4.84
Total OPEC	32.96	33.98		34.25	34.21				34.27	34.12	34.05
NON-OPEC[2]											
OECD											
North America	14.58	14.09	14.32	13.73	13.66	14.40	14.29	14.19	13.79	14.19	14.26
United States	7.66	7.29	7.31	7.04	6.69	7.29	7.32	7.34	6.78	7.07	7.15
Mexico	3.83	3.76	3.74	3.70	3.72	3.80	3.76	3.71	3.72	3.82	3.83
Canada	3.09	3.04	3.27	2.99	3.25	3.31	3.21	3.14	3.29	3.31	3.28
Europe	6.10	5.64	5.36	5.42	5.50	5.57	5.35	5.13	5.49	5.60	5.54
UK	2.06	1.83	1.67	1.66	1.78	1.79	1.65	1.55	1.73	1.82	1.81
Norway	3.19	2.96	2.91	2.93	2.91	2.98	2.91	2.80	2.94	2.96	2.93
Others	0.85	0.84	0.78	0.83	0.81	0.80	0.79	0.78	0.82	0.81	0.80
Pacific	0.58	0.59	0.55	0.60	0.57	0.52	0.53	0.55	0.58	0.58	0.47
Australia	0.54	0.54	0.51	0.56	0.53	0.48	0.49	0.51	0.54	0.54	0.43
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	20.32	20.23	19.76	19.72	20.49	20.18	19.88	19.87	20.37	20.28
NON-OECD											
Former USSR	11.22	11.64	12.21	11.68	11.90	11.93	12.17	12.33	11.96	11.88	11.69
Russia	9.23	9.48	9.81	9.54	9.64	9.63	9.79	9.89	9.66	9.64	9.48
Others	1.99	2.16	2.39	2.14	2.26	2.29	2.38	2.43	2.30	2.24	2.22
Asia	6.25	6.35	6.45	6.38	6.38	6.42	6.46	6.45	6.40	6.32	6.44
China	3.48	3.62	3.62	3.64	3.59	3.60	3.61	3.63	3.61	3.51	3.61
Malaysia	0.86	0.83	0.84	0.85	0.85	0.86	0.85	0.83	0.85	0.85	0.86
India	0.80	0.77	0.80	0.73	0.75	0.76	0.81	0.81	0.75	0.75	0.75
Others	1.11	1.13	1.18	1.17	1.19	1.20	1.19	1.17	1.19	1.21	1.21
Europe	0.17	0.16	0.15	0.16	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Latin America	4.07	4.28	4.48	4.29	4.30	4.38	4.45	4.50	4.30	4.32	4.35
Brazil	1.79	1.98	2.23	2.02	2.03	2.11	2.18	2.25	2.03	2.05	2.08
Argentina	0.80	0.77	0.72	0.78	0.75	0.73	0.73	0.71	0.75	0.75	0.72
Colombia	0.53	0.53	0.54	0.53	0.53	0.53	0.53	0.54	0.53	0.53	0.53
Ecuador	0.53	0.52	0.54	0.50	0.52	0.54	0.54	0.54	0.52	0.53	0.54
Others	0.42	0.47	0.46	0.47	0.47	0.47	0.47	0.46	0.46	0.47	0.47
Middle East[3]	1.92	1.86	1.81	1.86	1.84	1.83	1.81	1.80	1.84	1.84	1.84
Oman	0.79	0.77	0.75	0.77	0.76	0.76	0.75	0.75	0.76	0.76	0.76
Syria	0.49	0.46	0.43	0.46	0.45	0.44	0.43	0.43	0.45	0.45	0.45
Yemen	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41
Africa	3.39	3.69	4.22	3.79	3.89	3.98	4.20	4.30	3.93	3.89	3.92
Egypt	0.71	0.70	0.68	0.69	0.70	0.69	0.69	0.68	0.70	0.68	0.69
Angola	0.99	1.25	1.48	1.32	1.39	1.40	1.45	1.50	1.42	1.41	1.40
Gabon	0.24	0.23	0.23	0.24	0.24	0.24	0.24	0.23	0.24	0.24	0.24
Others	1.46	1.52	1.82	1.54	1.56	1.65	1.83	1.89	1.56	1.56	1.59
Total Non-OECD	27.03	27.97	29.32	28.16	28.47	28.69	29.24	29.53	28.58	28.40	28.40
Processing Gains[4]	1.83	1.86	1.90	1.84	1.88	1.92	1.89	1.88	1.88	1.88	1.92
TOTAL NON-OPEC	50.12	50.15	51.45	49.76	50.07	51.10	51.31	51.28	50.33	50.66	50.59
TOTAL SUPPLY	83.08	84.13		84.01	84.28				84.60	84.78	84.64

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			
	Aug2005	Sep2005	Oct2005	Nov2005	Dec2005*	Dec2002	Dec2003	Dec2004	1Q2005	2Q2005	3Q2005	4Q2005
North America												
Crude	421.2	429.0	440.5	443.1	441.7	386.7	382.0	400.1	0.38	0.14	-0.20	0.14
Motor Gasoline	222.8	227.2	229.2	230.8	233.1	240.4	234.0	244.8	0.00	0.00	-0.19	0.06
Middle Distillate	212.5	198.7	198.3	210.1	210.3	207.5	209.7	198.8	-0.26	0.17	0.08	0.13
Residual Fuel Oil	41.3	42.1	43.6	47.4	46.7	40.2	45.7	50.5	-0.02	-0.03	-0.04	0.05
Total Products[3]	673.6	663.5	664.4	674.2	661.7	652.2	639.8	655.2	-0.32	0.57	-0.15	-0.02
Total[4]	1248.7	1252.3	1268.1	1277.4	1259.2	1173.7	1160.7	1200.4	-0.01	0.82	-0.24	0.08
Europe												
Crude	335.5	339.5	335.8	328.3	328.9	297.1	313.3	321.0	0.24	-0.06	0.02	-0.11
Motor Gasoline	105.6	106.4	109.7	110.7	111.9	118.0	118.4	114.8	0.07	-0.19	0.03	0.06
Middle Distillate	259.2	258.6	263.4	260.3	252.8	239.8	238.9	241.2	0.05	-0.03	0.17	-0.06
Residual Fuel Oil	73.9	75.6	77.2	77.2	75.1	76.3	79.4	75.0	-0.07	0.04	0.04	-0.01
Total Products[3]	541.6	541.8	554.2	549.7	541.9	534.4	537.8	534.4	0.06	-0.23	0.24	0.00
Total[4]	949.6	957.1	963.4	952.1	944.1	894.8	921.7	927.2	0.33	-0.31	0.31	-0.14
Pacific												
Crude	181.9	168.1	174.6	165.6	155.8	161.1	180.1	171.2	-0.02	0.08	-0.09	-0.13
Motor Gasoline	22.9	22.8	24.4	24.2	22.1	22.4	22.0	24.2	0.01	-0.01	-0.02	-0.01
Middle Distillate	73.8	77.9	84.4	79.0	58.8	64.0	73.8	75.1	-0.29	0.11	0.21	-0.21
Residual Fuel Oil	23.5	23.9	24.0	23.2	21.0	21.8	23.0	22.4	-0.01	0.02	0.01	-0.03
Total Products[3]	188.0	191.8	201.3	192.1	168.4	175.4	183.2	187.8	-0.37	0.20	0.20	-0.26
Total[4]	442.4	432.4	451.6	432.0	393.5	407.6	434.8	430.3	-0.45	0.36	0.11	-0.42
Total OECD												
Crude	938.6	936.5	950.9	937.0	926.4	844.9	875.4	892.3	0.60	0.17	-0.27	-0.11
Motor Gasoline	351.2	356.4	363.3	365.7	367.1	380.8	374.4	383.7	0.08	-0.19	-0.19	0.12
Middle Distillate	545.5	535.1	546.1	549.4	521.9	511.3	522.5	515.1	-0.51	0.25	0.46	-0.14
Residual Fuel Oil	138.7	141.6	144.8	147.8	142.8	138.3	148.0	147.9	-0.10	0.03	0.00	0.01
Total Products[3]	1403.1	1397.1	1419.9	1415.9	1371.9	1361.9	1360.8	1377.5	-0.63	0.54	0.29	-0.27
Total[4]	2640.7	2641.8	2683.0	2661.5	2596.8	2476.2	2517.1	2557.9	-0.13	0.87	0.18	-0.49

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			
	Aug2005	Sep2005	Oct2005	Nov2005	Dec2005*	Dec2002	Dec2003	Dec2004	1Q2005	2Q2005	3Q2005	4Q2005
North America												
Crude	700.7	693.7	685.2	685.6	684.6	599.1	638.4	675.6	0.14	0.09	-0.03	-0.10
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	166.3	167.0	167.0	167.7	167.7	157.1	157.5	167.7	-0.04	0.01	0.02	0.01
Products	239.0	237.4	236.8	236.5	236.5	198.8	216.0	208.5	0.04	0.26	0.02	-0.01
Pacific												
Crude	383.5	382.1	381.1	380.5	379.8	379.6	384.7	384.5	0.00	-0.01	-0.01	-0.03
Products	11.5	11.2	11.2	11.3	11.2	9.5	11.0	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1250.5	1242.7	1233.3	1233.9	1232.1	1135.8	1180.6	1227.8	0.10	0.09	-0.02	-0.12
Products	252.5	250.6	250.0	249.8	249.7	210.3	229.0	221.5	0.04	0.26	0.02	-0.01
Total[4]	1504.0	1494.3	1484.3	1484.6	1482.8	1347.2	1410.6	1450.3	0.14	0.35	0.00	-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 2004		End March 2005		End June 2005		End September 2005		End December 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	167.8	72	164.7	74	164.7	73	165.6	-	-	-
Mexico	41.3	21	44.2	21	45.6	22	52.8	-	-	-
United States[4]	1646.8	80	1658.8	81	1740.5	84	1707.4	-	-	-
Total[4]	1878.0	74	1889.8	75	1972.9	78	1948.0	76	1945.9	76
Pacific										
Australia	33.2	38	34.8	38	35.9	41	34.5	-	-	-
Japan	635.3	105	604.9	121	629.4	124	637.9	-	-	-
Korea	149.4	62	137.4	67	142.5	71	145.4	-	-	-
New Zealand	8.0	49	7.9	53	9.0	64	7.9	-	-	-
Total	825.9	87	785.0	97	816.8	101	825.6	93	784.5	82
Europe[5]										
Austria	21.0	75	20.6	72	20.8	69	20.2	-	-	-
Belgium	27.2	40	26.9	48	27.8	53	30.3	-	-	-
Czech Republic	16.3	86	17.0	78	15.9	70	16.7	-	-	-
Denmark	16.2	86	16.3	89	17.2	96	20.5	-	-	-
Finland	24.4	110	26.2	125	27.0	122	27.3	-	-	-
France	186.2	90	187.4	99	185.6	94	191.4	-	-	-
Germany	267.2	106	280.5	111	279.4	102	275.8	-	-	-
Greece	35.7	77	35.7	97	32.6	83	34.6	-	-	-
Hungary	16.2	128	19.6	137	17.0	109	17.1	-	-	-
Ireland	12.0	60	10.6	58	11.6	63	13.2	-	-	-
Italy	135.8	73	133.7	75	132.1	75	137.0	-	-	-
Luxembourg	0.9	14	0.9	13	0.8	13	0.8	-	-	-
Netherlands	108.3	109	109.4	103	116.6	114	115.7	-	-	-
Norway	26.6	109	29.2	130	21.0	88	30.2	-	-	-
Poland	30.6	74	33.9	79	34.5	72	33.8	-	-	-
Portugal	24.3	69	25.6	77	26.5	77	26.8	-	-	-
Slovak Republic	6.2	95	7.0	99	6.5	85	6.4	-	-	-
Spain	119.8	72	126.7	80	129.4	82	131.7	-	-	-
Sweden	33.8	93	32.0	88	35.4	99	34.6	-	-	-
Switzerland	36.3	131	37.1	147	38.0	135	38.9	-	-	-
Turkey	55.3	100	55.4	80	52.2	76	50.8	-	-	-
United Kingdom	104.1	60	102.2	55	102.3	54	108.7	-	-	-
Total	1304.3	84	1333.8	87	1330.2	85	1362.5	87	1349.3	86
Total OECD	4008.2	80	4008.5	83	4119.9	84	4136.1	83	4079.6	80
DAYS OF IEA Net Imports[6]	-	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 and December 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]		
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	4136	1494	2642	83	30	53
4Q2005	4080	1483	2597	80	29	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 3Q2005 and 4Q2005 (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	Sep 05	Oct 05	Nov 05	Year Earlier Nov 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.64	0.55	0.52	0.45	0.45	0.41	0.32	0.44	0.49	0.52	-0.03
Europe	0.92	1.00	1.03	1.08	0.88	0.88	0.92	0.94	0.81	0.86	1.03	-0.17
Pacific	1.22	1.18	1.24	1.47	1.40	1.22	1.25	1.32	1.28	1.50	1.47	0.04
Saudi Medium												
North America	0.70	0.83	0.80	0.90	0.97	0.89	0.58	0.49	0.60	0.84	0.93	-0.09
Europe	0.11	0.11	0.11	0.16	0.12	0.13	0.20	0.18	0.13	0.16	0.18	-0.02
Pacific	0.16	0.24	0.23	0.23	0.21	0.24	0.26	0.23	0.26	0.33	0.26	0.06
Saudi Heavy												
North America	0.20	0.30	0.22	0.26	0.18	0.15	0.20	0.16	0.14	0.14	0.24	-0.11
Europe	0.09	0.19	0.23	0.20	0.19	0.20	0.27	0.31	0.32	0.26	0.22	0.04
Pacific	0.12	0.16	0.15	0.18	0.25	0.20	0.26	0.31	0.23	0.31	0.23	0.07
Iraqi Basrah Light[2]												
North America	0.35	0.44	0.71	0.67	0.56	0.69	0.56	0.52	0.65	0.51	0.66	-0.15
Europe	0.08	0.09	0.21	0.13	0.19	0.19	0.24	0.24	0.30	0.26	0.13	0.13
Pacific	0.02	0.03	0.12	0.15	0.07	0.06	0.06	0.07	0.06	0.03	0.17	-0.14
Iraqi Kirkuk												
North America	0.14	0.06	0.02	0.01	..	..	..	..	..	..	..	..
Europe	0.32	0.12	0.08	0.16	0.02	0.04	0.13	0.16	0.04	0.02	0.20	-0.18
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.27	0.23	0.18	0.16	0.13	0.17	0.11	0.17	-0.06
Pacific	0.12	0.17	0.16	0.16	0.19	0.13	0.14	0.12	0.15	0.12	0.16	-0.05
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.54	0.62	0.63	0.71	0.62	0.50	0.63	0.47	0.16
Pacific	0.54	0.69	0.65	0.63	0.76	0.59	0.52	0.54	0.54	0.56	0.58	-0.02
Venezuelan Light & Medium												
North America	0.68	0.69	0.67	0.63	0.78	0.88	0.79	0.69	0.77	0.71	0.57	0.14
Europe	0.08	0.02	0.01	0.01	0.02	0.03	0.06	0.03	0.01	0.17	..	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.55	0.60	0.88	0.95	0.83	0.82	0.66	0.43	0.51	0.46	0.95	-0.49
Europe	0.05	0.06	0.05	0.04	0.06	0.06	0.08	0.07	0.07	0.04	0.06	-0.02
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	0.92	1.32	1.36	1.37	1.30	1.36	1.17	1.03	1.13	1.25	1.40	-0.15
Europe	0.17	0.16	0.16	0.13	0.18	0.17	0.16	0.21	0.25	0.13	0.13	0.00
Pacific	0.00	0.00	0.00	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.01	0.00	..	..	0.01	0.00	0.02	0.05	0.10	0.06	..	..
Europe	0.01	0.00	0.01	0.02	0.02	0.01	0.02	0.03	0.09	0.07	0.03	0.04
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	0.10	0.18	0.08	0.25	-0.17
Europe	1.32	1.62	1.86	1.56	1.72	1.93	1.76	1.74	1.75	1.47	1.72	-0.25
Pacific	0.01	0.00	0.01	..	..	0.00	0.01	..	..	..	..	..
Nigerian Light[4]												
North America	0.38	0.63	0.80	0.73	0.87	0.88	0.94	0.91	0.85	1.01	0.82	0.19
Europe	0.32	0.41	0.28	0.30	0.30	0.27	0.41	0.38	0.34	0.31	0.26	0.05
Pacific	0.06	0.08	0.11	0.13	0.06	0.06	0.07	0.06	0.06	..	0.17	..
Nigerian Medium												
North America	0.16	0.17	0.23	0.20	0.18	0.22	0.13	0.09	0.02	0.15	0.17	-0.02
Europe	0.06	0.06	0.04	0.02	0.07	0.04	0.08	0.11	0.07	0.10	0.02	0.08
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	Sep-05	Oct-05	Nov-05	Year Earlier Nov-04	Year Earlier % change
Crude Oil												
North America	7584	8069	8397	8442	8577	8614	8251	7561	7963	8363	8504	-2%
Europe	8734	9096	9477	9543	9695	9503	10078	10241	10052	9939	9938	0%
Pacific	6422	6711	6659	6998	7166	6434	6642	6310	7041	6732	7607	-13%
Total OECD	22740	23876	24533	24984	25438	24552	24970	24113	25057	25034	26049	-4%
LPG												
North America	39	27	24	45	23	3	18	32	32	9	72	-679%
Europe	225	193	225	262	293	149	207	246	217	197	249	-27%
Pacific	553	541	541	561	532	591	500	497	358	485	583	-20%
Total OECD	817	760	790	869	848	743	724	774	607	691	904	-31%
Naphtha												
North America	42	67	86	144	124	89	151	105	62	66	123	-87%
Europe	298	305	282	251	279	231	287	294	253	325	198	39%
Pacific	705	770	769	748	772	759	693	692	828	696	714	-3%
Total OECD	1045	1142	1137	1143	1175	1080	1132	1090	1144	1087	1035	5%
Gasoline[3]												
North America	643	669	766	744	849	1020	1029	1166	1397	1029	766	26%
Europe	152	150	137	138	172	145	204	133	116	66	206	-214%
Pacific	58	70	105	106	95	130	92	71	65	121	108	11%
Total OECD	853	888	1007	988	1115	1294	1325	1370	1577	1215	1080	11%
Jet & Kerosene												
North America	97	97	88	116	67	43	139	167	302	306	149	51%
Europe	253	271	293	331	273	361	435	413	341	366	339	7%
Pacific	97	102	77	103	97	72	49	59	51	40	114	-184%
Total OECD	448	470	457	550	437	476	623	639	694	712	602	15%
Gasoil/Diesel												
North America	102	126	122	91	110	92	99	123	304	270	124	54%
Europe	656	652	751	876	931	716	806	866	750	843	718	15%
Pacific	53	73	74	66	60	94	79	80	53	100	67	34%
Total OECD	811	850	946	1034	1101	902	983	1068	1108	1214	908	25%
Heavy Fuel Oil												
North America	237	326	388	524	489	433	566	627	655	686	574	16%
Europe	470	398	405	396	415	550	528	544	454	439	411	6%
Pacific	89	88	76	64	83	82	90	77	61	100	93	7%
Total OECD	796	812	870	984	988	1065	1184	1248	1170	1225	1078	12%
Other Products												
North America	689	680	824	774	735	1064	1165	1337	1374	939	799	15%
Europe	735	690	676	658	718	807	798	801	822	795	700	12%
Pacific	256	235	256	252	254	248	225	206	230	251	219	13%
Total OECD	1681	1605	1756	1684	1708	2119	2188	2345	2426	1985	1718	13%
Total Products												
North America	1849	1991	2298	2439	2399	2745	3167	3557	4126	3306	2607	21%
Europe	2790	2657	2767	2912	3082	2960	3264	3296	2954	3031	2822	7%
Pacific	1811	1879	1898	1901	1894	1975	1728	1682	1645	1793	1898	-6%
Total OECD	6451	6527	6964	7252	7374	7679	8160	8535	8725	8130	7326	10%
Total Oil												
North America	9434	10061	10695	10881	10976	11359	11418	11118	12089	11669	11111	5%
Europe	11524	11753	12245	12455	12777	12463	13342	13537	13006	12970	12760	2%
Pacific	8233	8590	8558	8899	9059	8409	8370	7992	8687	8525	9505	-11%
Total OECD	29190	30403	31497	32236	32812	32231	33130	32648	33782	33164	33376	-1%

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

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OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

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INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

14 March 2006

HIGHLIGHTS

- NYMEX WTI averaged $61.93/bbl in February, down $3.61/bbl on the month, despite persistent disruptions to Nigerian supplies. The fall came against a backdrop of high US crude stocks and refinery maintenance. Heavy selling of winter-grade gasoline depressed the NYMEX gasoline benchmark, but prices recovered as trading activity switched to the summer-grade April contract.

- Global oil demand growth is revised down from 1.78 mb/d to 1.49 b/d for 2006 due to persistently high oil product prices and increasing evidence of demand weakness in Southeast Asia. However, this still represents a recovery from growth of 1.02 mb/d in 2005, with both China and North America driving the rebound.

- World oil supply increased by 490 kb/d in February to 84.6 mb/d. Unscheduled outages acted as a drag on non-OPEC supply, with some 350 kb/d of US GOM supply still shuttered on 8 March. Weaker FSU and African prospects trim forecast non-OPEC 2006 growth to 1.2 mb/d. Other OPEC liquids add a further 0.3 mb/d.

- Iraq underpinned a 220 kb/d increase in OPEC February crude supply to 29.6 mb/d despite interrupted Nigerian flows. In light of persistent supply disruptions, OPEC-10 targets were left unchanged at 28.0 mb/d on 8 March.

- Venezuelan Orinoco crude is now included in the OPEC total, causing a one-off shift in the 'call on OPEC crude and stock change'. On an underlying basis, the call remains flat at 29.0 mb/d in 2006.

- Total OECD industry oil stocks built by 6 mb in January. High US imports of gasoline and distillates and reduced heating demand, due to warm weather, inflated product inventories. These builds were only partly offset by draws in 'other products' and Pacific crude stocks. Forward cover came to 51 days in January, on a par with last month and a year ago.

Next Issue: 12 April 2006

CONTENTS

HIGHLIGHTS 1

ROADWORKS AHEAD 3

DEMAND 4
- Summary 4
- OECD 5
  - Pacific 6
  - Europe 7
- Europe's Passenger Vehicle Fleet Turnover Drives Mid-Term Diesel Demand 8
  - North America 10
- Non-OECD 11
  - China 11
  - Other Non-OECD 12

SUPPLY 14
- Summary 14
- OPEC 15
- Accounting for Venezuelan Heavy Oil 18
- OECD 20
  - North America 20
  - North Sea 21
- Former Soviet Union (FSU) 22
- Other Non-OPEC 23
  - Revisions to Other Non-OPEC Estimates 23
- Political Risks Could Alter African Supply Growth Profile 24

OECD STOCKS 25
- Summary 25
- OECD Industry Stock Changes in January 2006 26
  - OECD North America 26
  - OECD Europe 27
  - OECD Pacific 27
- OECD Inventory Position at End-January and Revisions to Preliminary Data 27
- Recent Developments in ARA Independent Storage 28
- Recent Developments in Singapore Stocks 28

PRICES 30
- Summary 30
- Oil Futures Prices in February 31
  - Crude Futures 32
  - Product Futures 33
- Crude Oil Prices in February 35
  - Benchmark Crudes 35
  - Europe and West Africa 36
  - The Americas 38
  - Middle East and Asia 38
  - Delivered Crude Prices in December 39
- Product Prices in February 39
  - Spot Product Prices 39
  - The Americas 41
  - Europe 42
  - Singapore 43
  - End-User Product Prices in February 43
  - Freight 45

REFINERY ACTIVITY 46
- Summary 46
- Refining Margins 46
  - OECD North America 48
  - OECD Europe 48
  - Asia 50
- Refinery Throughput 50
- US Refinery Maintenance Activity 51
  - OECD North America 51
  - OECD Europe 52
  - OECD Pacific 53
  - Non-OECD Throughputs 53
- OECD Refinery Yields 54

TABLES 55

OIL MARKET REPORT CONTACTS

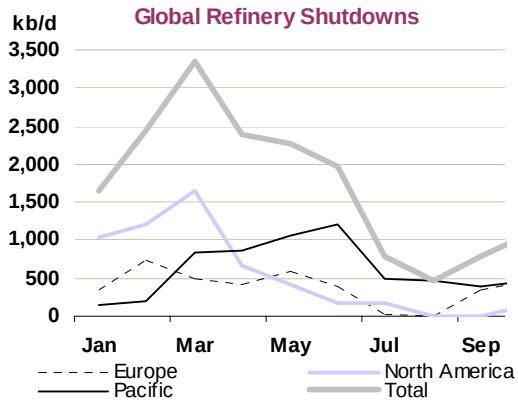
ROADWORKS AHEAD

The recent fall in the crude market from January highs has led to predictions that the four-year bull market in crude oil has reached its cyclical peak. A look at the fundamentals suggests that while there may be some justification for a moderation in prices, the road ahead is far from smooth.

There should be a modest increase in upstream spare capacity in 2006, lessening (but not removing) one of the factors that has pushed crude prices above $60/bbl. Of course, how much of this new upstream capacity will be available to the market depends on other factors such as OPEC policy and geopolitical issues. In particular, some of the recent capacity additions in Nigeria have only partly offset larger production outages, rather than adding to the supply cushion. Regional issues also have the potential to impinge on growth in the FSU and Africa.

Further, marginal additions to supply in 2006 should be both lighter and sweeter than in previous years, which should facilitate meeting strong demand for transportation fuels. But, neither change is necessarily indicative of a lasting trend. Additions to OPEC and non-OPEC capacity are forecast to keep global supply trends broadly in line with global demand in 2007 and 2008. Beyond this year, the long-term trend of the marginal barrel is heavier and sourer.

An analysis of refinery maintenance data suggests that global crude throughput should increase steadily from late March. That implies that refiners will already be looking to secure crude ahead of the end of maintenance programmes A February low point for physical crude trade appears to be confirmed by recent market reports suggesting a growing interest in heavy sour crudes from US Gulf Coast refiners.



If US refinery capacity is coming back on stream, could there be some downward price pressure from the product markets? Certainly, US product stocks are at the upper-end of the historical range on both a nominal and a forward demand basis. But they are countered by low OECD Pacific inventories, which leaves end-January OECD stocks below normal levels of forward demand cover. Further, a high level of maintenance and reduced imports should prompt a seasonal draw in US stocks. Complicating US inventory analysis are changes in both gasoline and diesel fuel specifications, which could lead to tightness in certain grades as inventory turnover takes place. Logistics and teething problems could trouble the supply of these products to the retail market, leading to pre-emptive warnings of price pressures.

Expected strong 2006 global GDP growth (around 4.3%) underlies our projections, and despite rising interest rates in OECD regions, the forecasts remain robust. Indeed, an investment bank recently predicted growth of 4.8% in 2006 and there are reports that the IMF will bolster its growth forecast to a similar level. That level of GDP growth equates to the economic expansion that underpinned the oil demand shock of 2004, but a repeat of the latter is unlikely. Global oil-product demand growth in 2006 is still expected to rebound from 1.02 mb/d in 2005, as both China and North America should post stronger growth. However, the removal of retail price subsidies in key countries in Southeast Asia has put downward pressure on demand in a region that had been one of the key contributors to global oil demand growth. It now appears that the impact of higher prices in this region will extend well into 2006.

But care should be taken when assessing these developments. A change to the reporting of Venezuelan heavy oil output (see page 18) results in a one-off increase in the call on OPEC and an equal reduction in OPEC NGLs in this Report. This one-off accounting change does not alter the underlying trend in the call: the impact of the supply and demand changes is only apparent when this shift is excluded.

On balance, strong world economic growth and rising crude demand, physical supply unpredictability in Iraq and Nigeria and low Pacific product stocks are likely to counterbalance additions to capacity and the return of damaged Gulf Coast refinery facilities – at least for the next few months. New product specifications, nervousness ahead of the Gulf of Mexico hurricane season and geopolitics, all have the potential to create further volatility, which in turn is likely to encourage stockholding. While there is reason to expect prices to soften if everything runs smoothly, the reality is that limited spare capacity and a bumpy road ahead are likely to support prices for some time.

DEMAND

Summary

- **Global oil product** demand growth is revised down from 1.78 mb/d to 1.49 mb/d for 2006. This is still a rebound from 1.02 mb/d in 2005, with both China and North America driving the increase. However, there is growing evidence of demand weakness in Southeast Asia. This, coupled with persistently high oil product prices and a sudden relative weakness in natural gas prices (which limits interfuel substitution of oil for natural gas at the margin), contribute to the downward revision.

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	84.0	82.2	84.1	82.0	82.9	83.9	83.3	85.1	83.3	84.3	86.3	84.7
Annual Change (%)	3.0	5.3	3.8	3.2	3.8	2.3	1.5	1.4	-0.1	1.2	1.2	1.5	1.6	2.8	1.8
Annual Change (mb/d)	2.4	4.1	3.0	2.6	3.0	1.9	1.2	1.1	-0.1	1.0	1.0	1.2	1.4	2.4	1.5
Changes from last month's report (mb/d)	-	-	-	-	-	-	-	-	-0.2	0.0	-0.2	-0.3	-0.4	-0.4	-0.3

- **High oil product prices** are clearly having an impact on demand, most notably in Southeast Asia, which had been a key driver of global oil demand growth. Initially it was thought that the region's oil product demand growth would rebound quickly following increases to administered product prices in several rapidly growing economies. It now appears that the impact of higher retail prices will extend well into 2006. Recent reports suggest that Indonesia's oil consumption could decline by as much as 20% in 2006 versus levels of year ago. Indonesia's 2006 demand assessment has been revised down by some 160 kb/d.

- **OECD demand** has been largely influenced by the weather, as is typical for this time of year. North America was unseasonably warm in January and Europe was very cold. On average, February temperatures were more closely aligned with levels of a year ago. Over the first quarter of 2006, demand is projected to grow by only 20 kb/d year-on-year in both North America and the OECD Pacific. In contrast, OECD Europe demand is expected to increase by some 200 kb/d versus the first quarter 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	25.43	0.81	0.09	0.39	3.3	0.3	1.5
Europe	16.30	0.22	-0.03	0.04	1.3	-0.2	0.2
OECD Pacific	8.63	-0.16	0.10	0.06	-1.9	1.2	0.7
China	6.59	0.86	0.15	0.39	15.4	2.4	6.0
Other Asia	8.72	0.51	0.16	0.03	6.3	1.9	0.3
Subtotal Asia	23.93	1.20	0.41	0.49	5.4	1.8	2.0
FSU	3.80	0.17	0.05	0.10	4.7	1.2	2.7
Middle East	5.91	0.34	0.29	0.30	6.5	5.1	5.0
Africa	2.90	0.09	0.09	0.07	3.2	3.1	2.5
Latin America	4.99	0.19	0.13	0.10	4.1	2.7	2.1
World	83.25	3.02	1.02	1.49	3.8	1.2	1.8

- **China** reported a large (1.3 mb/d) year-on-year rise in crude imports in January. This development must be interpreted with caution, as the increase is in part due to an unusually weak January 2005 baseline, when crude imports were down by some 590 kb/d against 2004 levels. Year-end irregularities in trade patterns and crude and product stockpiling are also a regular occurrence prior to the Lunar New Year. The projection of year-on-year apparent demand growth remains broadly unchanged at 6.0% for 2006.

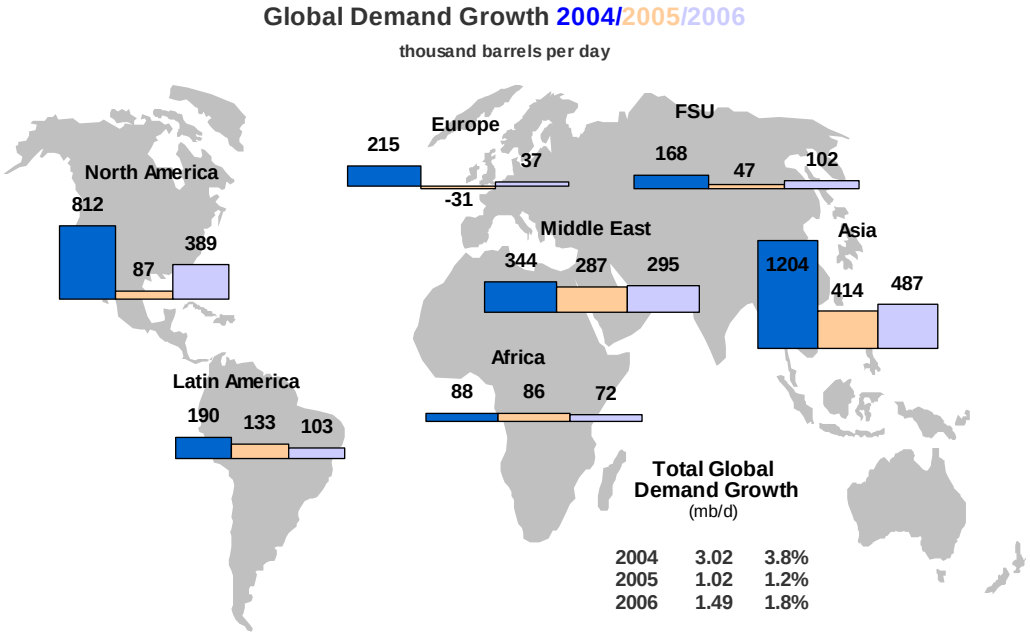
- **The dieselisation of Europe's vehicle fleet** continues, as a combination of new diesel car sales and vehicle retirements has accelerated the rise in the consumption of diesel. Assuming a vehicle life of approximately 15 years, Western Europe is retiring a group of vehicles that is approximately 85% gasoline fuelled and replacing it with new cars, approximately 50% of which are diesel powered. This trend is more pronounced in some countries, depending on tax incentives, but overall it is supported by the superior efficiency of diesel fuelled vehicles. In Austria, Belgium, France and Spain the share of new diesel fuelled passenger vehicle sales is now around 70%.

Preliminary Inland Deliveries - January 2006[1]

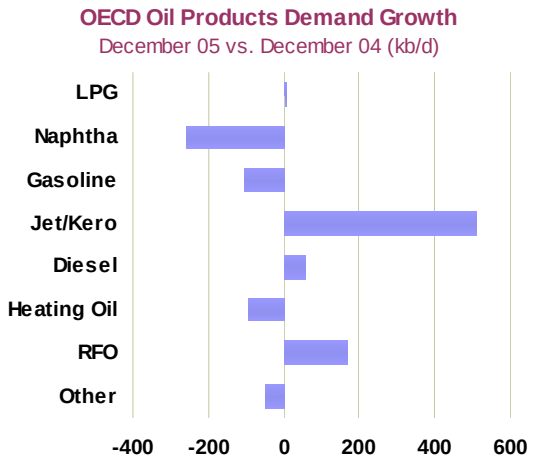
	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
USA[3]	8.89	1.3	1.59	4.6	3.01	5.8	1.16	-16.2	1.06	7.8	4.6	-8.7	20.29	-1.2
Canada	0.64	-4.8	0.09	-14.0	0.42	-3.2	0.12	-23.8	0.12	-27.5	0.2	-13.3	1.58	-9.9
Mexico	0.68	8.6	0.06	-3.3	0.32	10.1	0.00	na	0.33	-10.1	0.4	-1.7	1.79	2.1
Japan	0.99	0.8	1.04	-0.9	0.57	-3.1	0.55	-5.8	0.52	20.3	1.8	6.4	5.46	2.7
Korea	0.16	3.2	0.07	-2.7	0.38	4.4	0.19	-21.9	0.34	-5.9	1.2	1.6	2.29	-1.6
France	0.21	-3.4	0.13	4.1	0.60	4.2	0.42	-2.4	0.09	40.4	0.4	2.7	1.90	2.6
Germany	0.49	-4.0	0.15	2.6	0.49	2.6	0.59	17.0	0.09	-14.7	0.4	-7.4	2.25	1.4
Italy	0.27	-4.3	0.08	8.3	0.46	7.6	0.13	5.6	0.21	7.8	0.4	0.9	1.57	3.5
Total	**12.32**	**0.9**	**3.21**	**1.8**	**6.25**	**4.1**	**3.14**	**-7.8**	**2.75**	**3.2**	**9.4**	**-3.7**	**37.12**	**-0.4**

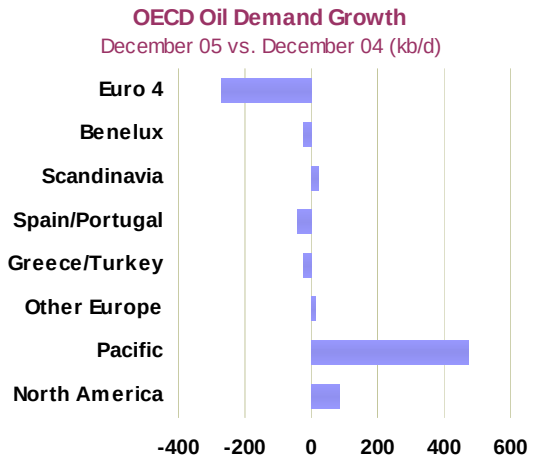
Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry
Percentage change is calculated versus last year
1 excludes refinery fuel and bunkers (except US)
2 includes direct use of crude oil
3 fifty states only. Diesel's share of total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

- **Airline activity** offers useful insights into how the transport sector, and industry in general, is adapting to the reality of surging consumer demand in the face of high oil prices. International air passenger and freight traffic is forecast to grow by a robust 5-6% this year. However, airlines are making substantial adjustments to their operations to optimise fuel use. In the United States passenger miles are at record highs even as departures are at the lowest level in over two decades. Pilots are being asked to fly at higher altitudes and optimise landing patterns to save fuel. Airlines have also moved to reduce onboard weight, including tighter controls and charges for overweight baggage.



OECD





Total OECD Demand by Product
(million barrels per day)

	2004	2005	1Q05	2Q05	3Q05	4Q05	Oct 05	Nov 05	Dec 05	Latest month vs. Nov 05	Latest month vs. Dec 04
LPG & Ethane	4.87	4.69	5.40	4.33	4.35	4.71	4.17	4.63	5.32	0.68	0.01
Naphtha	3.22	3.23	3.40	3.15	3.25	3.11	2.98	3.16	3.19	0.03	-0.26
Motor Gasoline	14.88	14.87	14.46	15.08	15.18	14.74	14.51	14.69	15.02	0.34	-0.10
Jet & Kerosene	4.11	4.23	4.62	3.91	4.00	4.40	3.93	4.25	5.02	0.77	0.51
Gas/Diesel Oil	12.85	13.03	13.38	12.64	12.73	13.38	12.85	13.59	13.70	0.11	-0.03
Residual Fuel Oil	4.59	4.58	4.88	4.36	4.44	4.64	4.41	4.63	4.89	0.25	0.17
Other Products	4.98	5.00	4.42	5.23	5.35	4.98	5.05	5.20	4.70	-0.50	-0.05
Total Products	**49.49**	**49.63**	**50.57**	**48.70**	**49.29**	**49.97**	**47.91**	**50.15**	**51.85**	**1.70**	**0.24**

Pacific

While January temperatures were somewhat colder than levels of a year ago in Japan, there was a strikingly large increase of 20.3% and 42.8% in deliveries of residual fuel oil and 'other products' respectively. The 'other products' category includes crude for direct burning in power generation, which has seen a resurgence in recent months.

Overall, Japan's oil use in power generation was reported to be about 75% above January last year, in part due to unusually low hydroelectric output. An additional factor is that the spot liquefied natural gas (LNG) market was very tight, encouraging utilities to switch to oil at the margin. In late January Kansai Electric Power Company is said to have purchased a spot LNG cargo for over $19/mmBtu (well over $100/bbl oil on a heating equivalent basis), which is thought to be the highest price ever paid by a Japanese company. Korea is said to have paid similar prices at the time for spot cargoes.

Normally Japanese utilities are not as active in the spot LNG market. However, there has been a sharp drop in term shipments of LNG to Japan because Indonesia has been unable to supply contracted volumes. Indonesian gas production has fallen short of expectations while at the same time domestic consumption has risen, contributing to a shortfall that is expected to persist. Indonesian supply problems were compounded by Qatari LNG liquefaction plant outages.

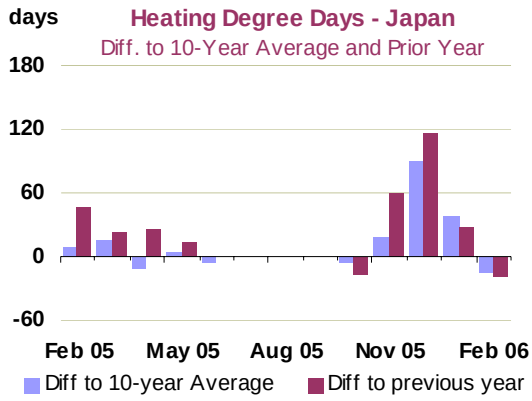
More recently, spot LNG prices have eased with falling international gas prices, which should help limit Japan's oil consumption in power. Regional LNG supply prospects are also improving as Korea typically has LNG cargoes available in the summer months because its consumption is highly seasonal. But it should be noted that in December Tokyo Electric Power Company (TEPCO) received regulatory approval to import oil directly rather than through traders or brokers. Some contend that this may signal an intention to increase overseas purchases of oil for direct burn.

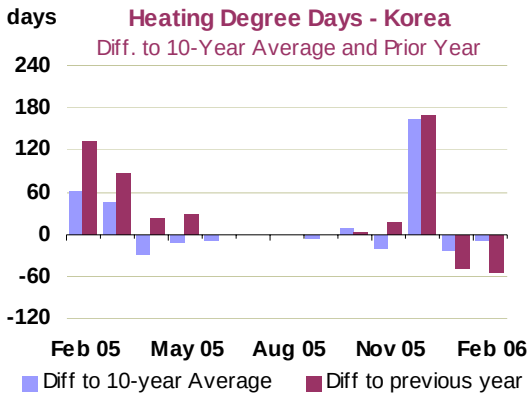
OECD Pacific Demand by Product
(million barrels per day)

	2004	2005	1Q05	2Q05	3Q05	4Q05	Oct 05	Nov 05	Dec 05	Latest month vs. Nov 05	Latest month vs. Dec 04
LPG & Ethane	0.88	0.90	1.00	0.87	0.83	0.90	0.81	0.91	0.97	0.06	0.05
Naphtha	1.57	1.62	1.69	1.54	1.62	1.61	1.49	1.66	1.68	0.02	0.00
Motor Gasoline	1.60	1.61	1.59	1.59	1.66	1.61	1.51	1.60	1.72	0.11	0.00
Jet & Kerosene	1.02	1.05	1.54	0.77	0.72	1.20	0.78	1.08	1.73	0.65	0.28
Gas/Diesel Oil	1.89	1.88	1.99	1.85	1.76	1.92	1.72	1.94	2.09	0.15	0.03
Residual Fuel Oil	1.05	1.05	1.17	0.98	0.98	1.06	0.98	1.06	1.15	0.10	0.08
Other Products	0.52	0.52	0.52	0.50	0.54	0.53	0.46	0.53	0.60	0.08	0.04
Total Products	**8.53**	**8.63**	**9.49**	**8.10**	**8.12**	**8.83**	**7.75**	**8.79**	**9.95**	**1.17**	**0.47**

After more than a decade of economic stagnation, there are solid signs that Japan's economy is returning to growth. Although this will certainly support oil product demand at the margin, it is unlikely that the recovery will translate into a substantial upswing in demand. An aging population and a movement toward smaller vehicles will continue to temper growth in transport fuels.

In Korea, January temperatures were warmer than a year ago, contributing to a 21.9% and 2.7% year-on-year decline in heating oil and jet fuel/kerosene deliveries respectively. Demand for residual fuel oil was also down, but transport fuels posted relatively strong growth versus year-ago levels. On the whole, Korean deliveries remained weak in spite of its solid economic performance, declining by 1.6% in January.





Europe

OECD Europe demand is revised up by some 80 kb/d in the first quarter of 2006, in part due to adjustments associated with an unseasonably cold January. However, for 2006 as a whole, persistent high oil prices have contributed to a 10 kb/d downward revision to demand. Temperatures remained cold in February, albeit more in line with seasonal norms in key consuming areas. Several OECD countries—including Austria, Hungary, Italy and Poland—that receive Russian natural gas via Ukraine experienced a shortfall in scheduled supply in late January/early February as extraordinarily cold weather gripped large parts of Eastern Europe. A large share of the natural gas shortfall was met out of inventories, but there is evidence that countries substituted oil products at the margin. In particular, Italian utilities have reportedly switched to fuel oil.

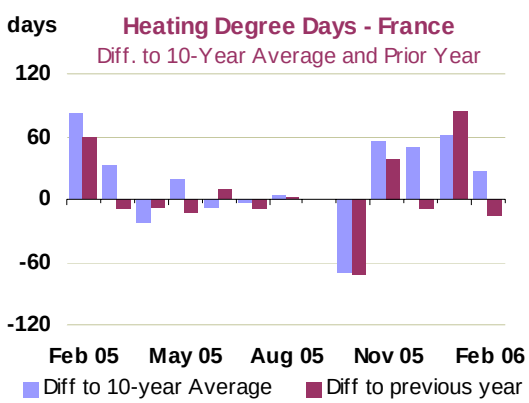
German heating oil deliveries were up by some 17.0% year-on-year in January, reflecting the cold temperatures. Surprisingly, French heating oil deliveries declined by 2.4% in January. As noted in last month's Report, January saw reduced barge deliveries associated with freezing conditions and low water levels on the Rhine. Consequently, subsequent months' deliveries could be higher than might be warranted by the weather as tertiary inventories are rebuilt. Note, however, that February 2005 was relatively cold in France and Germany so demand for heating oil is still expected to post a decline versus levels of a year ago.

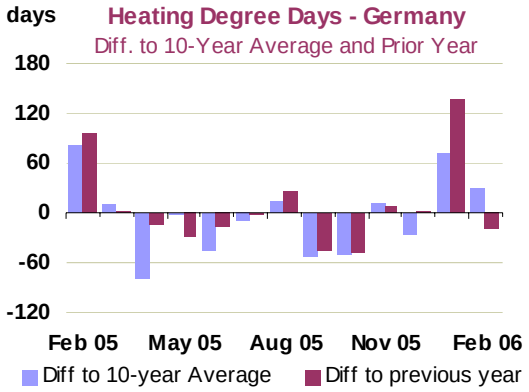
OECD Europe Demand by Product
(million barrels per day)

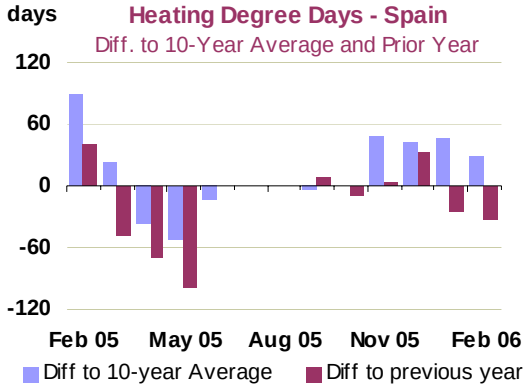
	2004	2005	1Q05	2Q05	3Q05	4Q05	Oct 05	Nov 05	Dec 05	Latest month vs. Nov 05	Latest month vs. Dec 04
LPG & Ethane	1.03	1.00	1.13	0.91	0.93	1.02	0.93	1.01	1.13	0.11	0.04
Naphtha	1.15	1.17	1.21	1.15	1.14	1.20	1.22	1.23	1.17	-0.06	-0.03
Motor Gasoline	2.78	2.65	2.53	2.76	2.75	2.56	2.55	2.55	2.57	0.03	-0.15
Jet & Kerosene	1.18	1.25	1.15	1.24	1.35	1.24	1.24	1.21	1.27	0.06	0.17
Gas/Diesel Oil	5.98	6.09	6.17	5.80	6.06	6.33	6.07	6.61	6.32	-0.28	-0.21
Residual Fuel Oil	2.02	1.95	2.12	1.90	1.84	1.93	1.80	1.93	2.07	0.14	-0.04
Other Products	1.48	1.47	1.26	1.55	1.64	1.45	1.54	1.52	1.29	-0.24	-0.09
Total Products	**15.62**	**15.58**	**15.56**	**15.30**	**15.71**	**15.73**	**15.35**	**16.05**	**15.81**	**-0.24**	**-0.32**

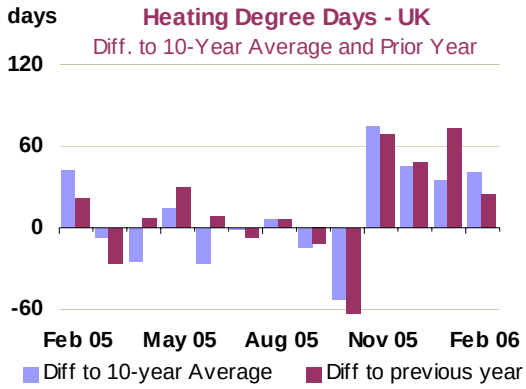
Among other fuels, provisional January data for France, Germany and Italy show that diesel demand was strong and gasoline demand declined by less than has become the norm as the dieselisation of the European transport market continues (see *Europe's Passenger Vehicle Fleet Turnover Drives Mid-Term Diesel Demand*). This is in part attributable to an extra working day in January 2006 compared to January 2005.

January deliveries of fuel oil increased by some 40.4% year-on-year in France and 7.8% in Italy. Drought conditions reducing hydroelectric output played a part in this increase, especially in France, where the consumption of fuel oil in power generation increased by a reported 145%. In spite of cold temperatures, German deliveries of fuel oil declined by 14.7%.



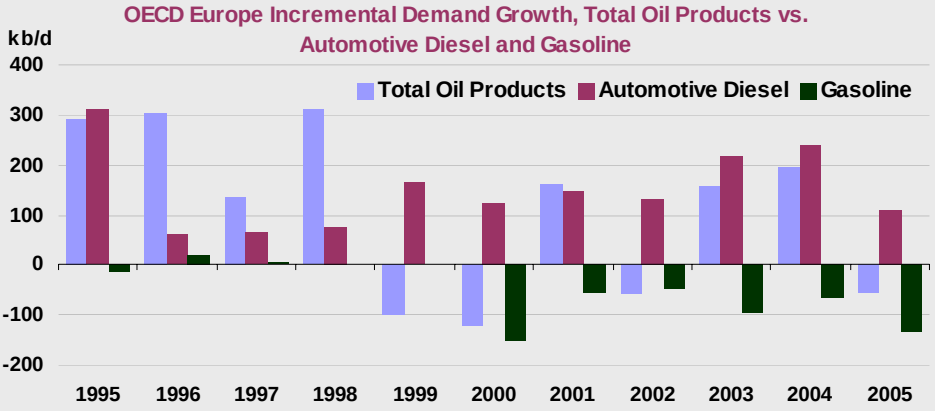






Europe's Passenger Vehicle Fleet Turnover Drives Mid-Term Diesel Demand

Over the past decade the growth in demand for oil products in OECD Europe has been relatively stagnant. However, the composition of demand has experienced a marked shift. A key change that has been well documented is the rapid rise in diesel demand and the corresponding decline in gasoline consumption. A number of factors have driven the move towards diesel, including lower taxes and superior fuel efficiency versus gasoline. The performance of diesel engines has also improved, helping to encourage the purchase of diesel fuelled passenger vehicles. Although government pricing policy played an important role in the early move to diesel fuel, the transition gained momentum as the use of diesel became more commonplace.



While the rapid increase in diesel fuelled new passenger car registrations is striking, it is the combination of new car sales and vehicle retirements that has accelerated the rise in consumption of diesel. Assuming a vehicle life of approximately 15 years, Western Europe is retiring a group of vehicles that is approximately 85% gasoline fuelled and replacing it with new cars, approximately 50% of which are diesel powered. This trend is extraordinarily pronounced in some countries, such as Italy. In 1990 only 7% of Italy's new vehicle sales were diesel powered. By 2005 this share had risen to almost 60%. In Austria, Belgium, France and Spain the share of new diesel fuelled passenger vehicles has pushed up to about 70%.

Europe's Passenger Vehicle Fleet Turnover Drives Mid-Term Diesel Demand

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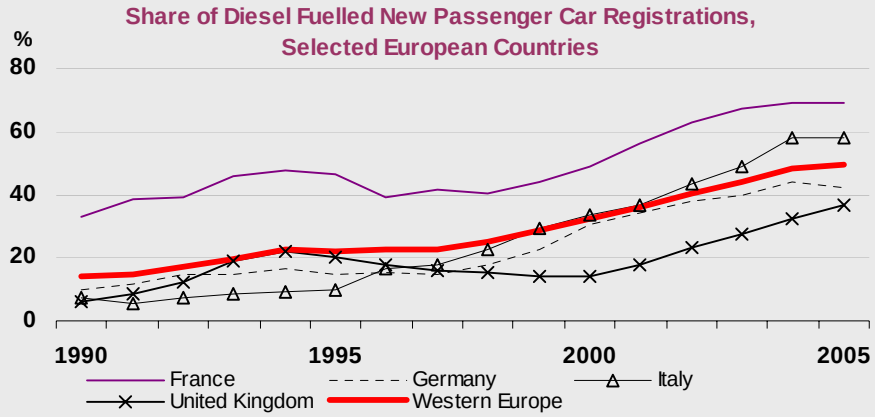
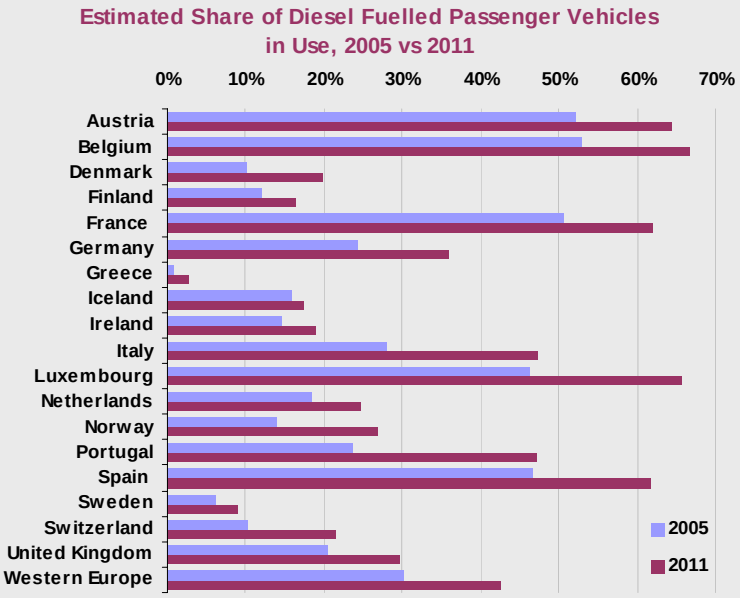


Even if the share of diesel car sales begins to plateau—as it did in 2005, rising by only 1% compared to about 4% annually over 1998-2004, the replacement of older gasoline vehicles will mean a growing share of diesel in transport fuels. This is true under a relatively wide range of assumptions regarding new car sales. In 2011 the share of diesel powered vehicles in Western Europe's passenger vehicle fleet is projected to rise to approximately 43%, versus only 30% in 2005.

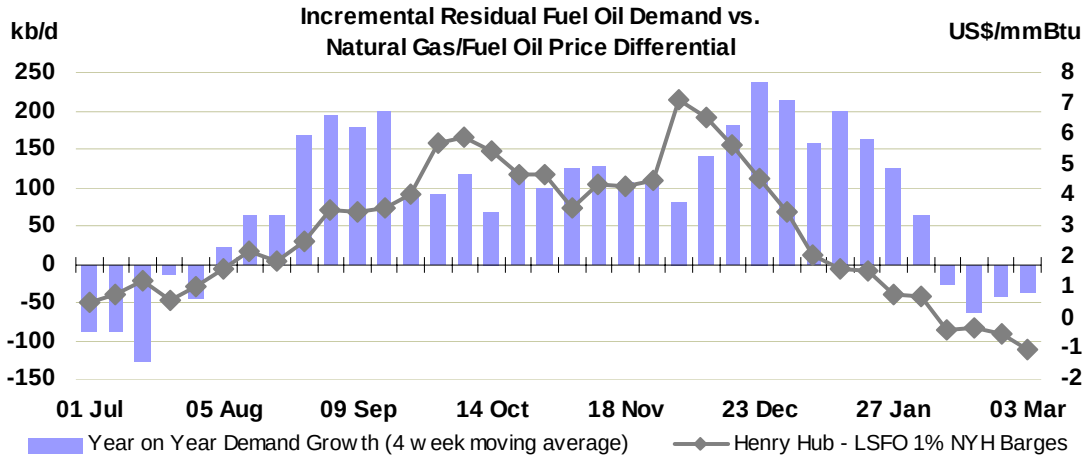


It is possible that a tightening of the regional diesel market and corresponding gasoline surplus will contribute to a rise in the average wholesale price of diesel relative to gasoline. This could in turn reduce the retail price advantage that diesel has in most European markets. However, there is evidence that once diesel makes inroads into a market it can continue to supplant gasoline even if the price differential is minimised. For example, in the UK regular gasoline and diesel retail prices are roughly equal, but the efficiency advantages of diesel in a relatively high priced oil product market have spurred sales of diesel fuelled passenger vehicles.

In short, Europe's move toward diesel has developed substantial inertia. Looking to 2005-2011, diesel demand is projected to increase by some 600-700 kb/d while gasoline demand is expected to decline by 300-400 kb/d. There is no escaping the fact that this transition will have a major impact on Atlantic Basin product trade, as well as decision-making related to refinery upgrades and the crude import slate.

North America

The impact of persistent high oil product prices and relatively subdued natural gas prices contribute to an 80 kb/d downward revision to the outlook for North American oil demand in 2006. For the US, provisional weekly data show that fuel oil demand has fallen by some 150-250 kb/d versus post-hurricane/mid-winter levels. On a $/mmBtu basis the New York city gate price for natural gas recently dropped below the price of fuel oil, discouraging substitution of fuel oil for natural gas. In contrast, LPG/ethane demand has been stronger than expected, albeit still down from year-ago levels. Demand for petrochemical feedstocks is recovering and lower natural gas prices have reduced the incentive to leave NGLs in the gas stream. Petrochemical producers have also been favouring butane and ethane over naphtha, for which demand has weakened considerably.



Although February temperatures moved to more normal levels following an unseasonably warm January, the winter of 2005/2006 has been very mild on average in North America. This has limited the demand for heating oil and contributed to a decline in natural gas prices. Preliminary US data also indicate that gasoline demand returned to a more robust pattern of growth in January and February, averaging just under 2%, perhaps due to declining retail prices and relatively warm weather encouraging driving.

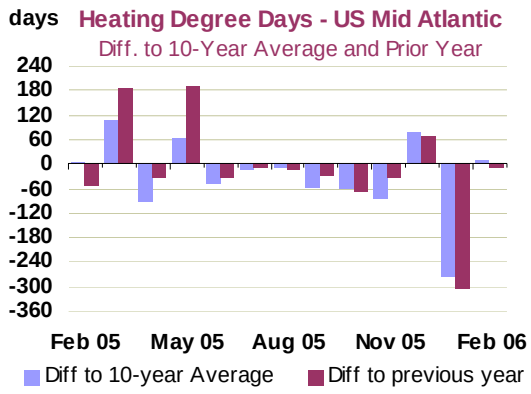
OECD North America Demand by Product
(million barrels per day)

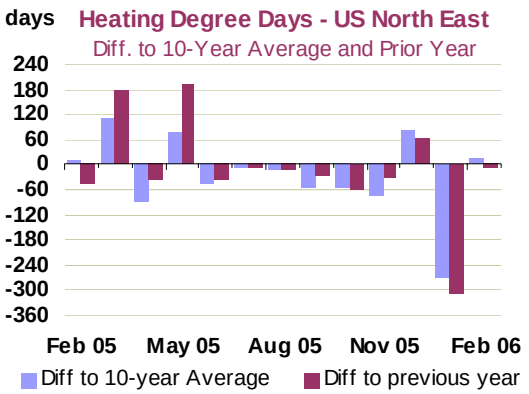
	2004	2005	1Q05	2Q05	3Q05	4Q05	Oct 05	Nov 05	Dec 05	Latest month vs. Nov 05	Latest month vs. Dec 04
LPG & Ethane	2.95	2.79	3.27	2.54	2.58	2.79	2.43	2.71	3.22	0.51	-0.08
Naphtha	0.50	0.44	0.50	0.47	0.49	0.30	0.27	0.27	0.35	0.08	-0.22
Motor Gasoline	10.50	10.61	10.35	10.74	10.77	10.58	10.45	10.54	10.74	0.20	0.05
Jet & Kerosene	1.91	1.93	1.94	1.89	1.93	1.96	1.90	1.96	2.02	0.06	0.06
Gas/Diesel Oil	4.98	5.07	5.22	5.00	4.91	5.13	5.05	5.05	5.29	0.24	0.15
Residual Fuel Oil	1.51	1.58	1.60	1.47	1.62	1.65	1.63	1.65	1.67	0.02	0.13
Other Products	2.98	3.00	2.65	3.18	3.17	3.00	3.06	3.15	2.81	-0.34	-0.01
Total Products	**25.34**	**25.43**	**25.53**	**25.30**	**25.47**	**25.40**	**24.80**	**25.32**	**26.09**	**0.77**	**0.09**

The substantial shift in strategy of US airlines provides insights as to what might be expected in other sectors as the US economy continues to post robust growth while fuel prices remain high. Passenger miles are at record highs even as the number of scheduled departures is at the lowest level in over two decades. Airlines are going to great lengths to increase their load factors as well as pursuing a variety of other cost-saving measures, including optimising flight plans to minimize fuel use and upgrading to more efficient aircraft.

Preliminary data for Canada show that inland deliveries fell by a larger-than-expected 9.9% in January. Demand for heating fuels was unseasonably weak and deliveries of transport fuels are reported to be down as well. In addition, revisions to September-December 2005 data imply that Canadian demand fell by some 6.0% year-on-year in the fourth quarter of 2005, likely in part due to relatively warm weather and product price increases. Weakness in Canadian product demand does

not appear to be related to economic growth. Canada's GDP expanded by some 2.9% in the fourth quarter of 2005 and is still showing strength in the early months of 2006.





Non-OECD

China

China's net product imports were down by approximately 160 kb/d year-on-year in January, but net crude imports were up by some 1.3 mb/d, suggesting strength in refinery throughputs. Although the large increase in crude imports has attracted attention, this development must be interpreted with caution as the January 2005 baseline was unusually weak (crude imports declining by some 590 kb/d year-on-year). In the past, there have been year-end irregularities in import patterns as market participants have moved to account for crude shipments in different calendar years. The timing of the Lunar New Year and related crude and product stockpiling adds an additional element of uncertainty.

January estimates of domestic refinery production have been delayed due to the Lunar New Year, but based on available crude and product trade data, China's apparent demand (refinery production plus net product imports) is estimated to have grown by some 2.6% year-on-year for the month. This is roughly in-line with expectations. Year-on-year demand growth is projected to increase in coming months.

China Crude & Product Trade
(thousand barrels per day)

	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Nov 05	Dec 05	Jan 06	Latest month vs. Dec 05	Latest month vs. Jan 05
Net Imports/(Exports) of:											
Crude Oil	2346	2387	2305	2541	2294	2407	2290	2353	3105	752	1383
Products & Feedstocks	661	480	501	375	445	599	588	602	468	-134	-156
Gasoil/Diesel	43	-19	-6	-27	-40	-3	8	-12	4	16	-4
Gasoline	-125	-130	-151	-161	-155	-55	-57	-66	-98	-32	30
Heavy Fuel Oil	506	418	480	395	397	402	371	454	395	-59	-172
LPG	201	194	200	179	216	182	196	171	118	-53	-68
Naphtha	-33	-35	-49	-67	-25	1	-20	24	-26	-50	23
Jet & Kerosene	16	11	6	5	2	30	26	24	33	9	18
Other	52	41	22	51	49	42	64	7	42	35	18
Total	3008	2867	2807	2916	2739	3006	2878	2955	3573	618	1228

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

Product pricing issues continue to cloud Chinese demand prospects. There have been reports that wholesalers were hoarding products in anticipation of a March increase to administered retail prices, causing shortages in some areas and reducing overall consumption. It now appears that the government is considering adopting a cost-plus pricing system where prices would be set to compensate refiners for crude cost and transport, plus a refining margin. This would replace the current system where domestic prices are in theory linked to prices in Singapore (60%), Rotterdam (30%) and New York (10%), but in practice seldom adjusted. It remains to be seen when this new policy will be enacted and whether prices will be adjusted as regularly as promised.

The reality is that market distortions will remain until retail prices are aligned with the international market. Although at this point it appears unlikely, the potential for a large upward adjustment to product prices contributes to uncertainty over Chinese demand projections. As witnessed in Southeast Asia, a sharp and sudden increase could have a substantial impact on the market.

While pricing issues serve to cloud the demand picture, other factors that influence consumption continue to suggest that growth should rebound in 2006. New auto sales were up by some 73% in January versus levels of a year ago, and overall the government estimates that sales are likely to increase by 12-13% in 2006. Naphtha demand should expand quite rapidly as new petrochemical production capacity comes online.

In contrast, a decline in oil use in power generation will continue to act as a drag on demand as new, largely coal-fired, capacity comes on-line. The government has announced that the maximum power shortage during the 2005 summer months was about 10 GW lower than in 2004. However, the shortfall was still over 20 GW, so there is continued room for improvement, thereby further reducing oil demand in power. But in the short-term the arrival of China's first LNG cargo has been delayed by almost two months to the end of May, which should lend some support to fuel oil demand.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2004	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
LPG & Ethane	633	631	633	-2	2	-0.3	0.3
Naphtha	684	750	847	66	97	9.7	12.9
Motor Gasoline	1069	1092	1177	23	85	2.1	7.8
Jet & Kerosene	239	246	262	6	17	2.6	6.8
Gas/Diesel Oil	2150	2264	2429	114	165	5.3	7.3
Residual Fuel Oil	829	748	725	-82	-23	-9.8	-3.0
Other Products	828	857	908	28	51	3.4	5.9
Total Products	**6433**	**6587**	**6981**	**154**	**394**	**2.4**	**6.0**

China's plans to fill its strategic storage remain murky. There have been some indications that this may happen near the end of 2006, but it is said to be in part dependant on international crude prices. If prices are deemed too high, filling may be pushed back.

Other Non-OECD

It is becoming increasingly clear that **Southeast Asia**, which had been one of the key engines of global oil demand growth, is feeling the effects of high oil prices. The impact of the rise in international oil prices has been accentuated by the fact that several key consumers in the region imposed sudden and sharp increases to administered retail prices. While initially it was thought that oil product demand growth would rebound rapidly after the retail price hikes because the region continues to post robust economic growth, it now appears that the impact will extend well into 2006.

In this context it should be mentioned that developing economies are generally thought to be more price sensitive than OECD economies, where consumption is heavily weighted towards less price-sensitive transport fuels. High excise taxes on products also lessen the impact of international price increases on OECD consumers. Some developing countries have sought to insulate consumers from the rise in market prices by increasing price subsidies. This temporarily supports demand growth in the face of high prices, but also has the potential to create unsustainable budget imbalances. A number of countries in Southeast Asia have had to impose dramatic increases to administered retail prices as the cost of subsidies became too much to bear. Thus the impact of high prices is being felt all at once as a sudden shock.

Recent reports suggest that **Indonesia's** oil consumption may decline by as much as 20% in 2006 versus 2005. This sudden decline is in response to a near doubling of retail gasoline and diesel prices and a tripling of retail kerosene prices in October. As a consequence, Indonesia's 2006 demand assessment is revised down by some 160 kb/d. Others, including **Thailand** and the **Philippines**, have also posted substantial decreases in oil product demand in recent months. **Malaysia** recently saw protests as it moved to further raise retail prices by some 20% in an effort to contain fuel subsidies.

Note that the International Energy Agency Energy Statistics Division is currently in the process of compiling detailed 2004 oil product consumption data for non-OECD countries. At this point the data are preliminary, but while it appears that Indonesia's 2004 baseline consumption may be adjusted upwards, it would not affect the trend in growth noted above.

At this point Southeast Asia's economies generally appear to be holding up well. However, there is evidence that the Indonesian economy is slowing in the near term due to fuel price increases and higher interest rates. In spite of this, most economists believe that these government measures have strengthened medium-term economic prospects.

Many Southeast Asian consumers are turning to bio-fuels as an alternative to relatively high priced oil products. In Thailand, January demand for 95 octane gasoline declined by some 38% year-on-year as sales of lower-priced gasohol increased by almost 12 times versus previous-year levels. The Malaysian and the Philippine governments are also actively supporting alternative fuels.

Among other countries in the region, **Singapore's** market for marine bunkers grew by a reported 8% in 2005 as regional seaborne trade continues its rapid expansion. Most indications are that the bunker market will continue to grow at a rapid rate, but this will be offset to a certain extent by a decline in fuel oil demand in the power sector. Singapore's power producers have increasingly turned to more efficient natural gas-fired combined-cycle plants as the price of fuel oil has risen.

Preliminary indications are that **India's** demand posted a slight year-on-year decline in January. As has been the case over the past several months, demand for transport fuels remains strong as befits a rapidly expanding economy. In contrast, the demand for relatively high-priced fuel oil and naphtha has declined as alternative fuels have gained favour.

A government panel recently recommended that India remove price controls on gasoline and diesel to help improve the profitability of state firms. However, prospects of action in this area seem to be fading due to concern over the impact on consumers. Instead, it appears that the government is following roughly in the footsteps of China by offering a $1.3 billion lump-sum payout to state-run refiners. This is intended to compensate for losses stemming from maintaining retail prices below international levels.

India Crude & Product Trade

(thousand barrels per day)

	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Oct 05	Nov 05	Dec 05*	Latest month vs. Nov 05	Latest month vs. Dec 04
Net Imports/(Exports) of:											
Crude Oil	1945	1927	1969	1894	1965	1882	1846	1894	1908	14	259
(by Public Oil Cos)	1158	1131	1133	1116	1112	1164	1275	1211	1008	-203	105
Products & Feedstocks	-176	-123	-82	-92	-116	-201	-197	-117	-286	-169	-126
Gasoil/Diesel	-139	-139	-89	-108	-135	-224	-223	-210	-238	-28	-90
Gasoline	-75	-24	-53	-39	-35	29	-4	60	33	-27	108
Heavy Fuel Oil	-6	-5	-4	10	7	-34	-33	-17	-52	-35	-55
LPG	86	98	95	74	98	126	138	139	102	-37	-26
Naphtha	-7	-32	-15	-39	-28	-47	-9	-28	-104	-76	-82
Jet & Kerosene	-47	-34	-34	-5	-33	-63	-74	-78	-39	39	19
Other	12	14	17	15	10	13	8	18	13	-5	0
Total	1769	1804	1887	1801	1849	1681	1649	1777	1622	-155	133

* Preliminary

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

After a period of relatively slow growth, **Brazilian** demand grew by some 6.5% year-on-year in December, driven in part by robust demand for ethanol. Sales of flex-fuel cars, which can use both ethanol and gasoline, now account for over three-quarters of new car sales. Looking forward, Brazilian increases in ethanol consumption may be tempered as the international market for ethanol is tight and sugar prices are at 25-year highs. The government recently reduced the required mixture of ethanol in gasoline from 25% to 20% in an effort to stave off possible shortages.

FSU apparent demand, which is calculated as the difference between crude production and net crude and product exports, is revised down by some 30 kb/d for 2006. While anecdotal evidence would suggest that oil product demand surged with record breaking cold temperatures in January and February, this has not been reflected in estimates of production and exports for these two months. There are reports of a substantial drawdown in stocks which could be rebuilt in coming months.

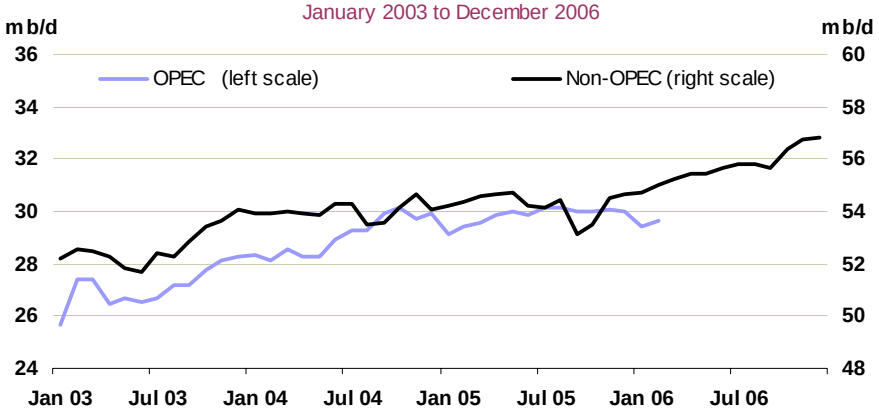
SUPPLY

Summary

- **World oil supply** increased by 490 kb/d in February to average 84.6 mb/d. Estimates for January were also revised down by a similar amount. Modest North American, FSU and Australian production recovery in February, after a disruption-prone January, played a role. So too did a sharp rebound in Iraqi supply, up an estimated 335 kb/d for the month.
- **New production** in late January and February included start-up at Saudi Arabia's Haradh project, Angola's Belize field, the Piranema pilot project offshore Brazil, US GOM satellite developments, Norway's Oseberg West and Mauritania's first production from the offshore Chinguetti field. However, overall supply levels remained depressed by a spate of unscheduled outages affecting the US Gulf of Mexico, the FSU, Canada, Norway, Ecuador, Argentina, Iran, Iraq and Nigeria.
- **Shut-in oil production in the US Federal Gulf of Mexico (GOM)** after last year's hurricanes was reported at 348 kb/d on 8 March. In all, GOM production has been revised up by some 15 kb/d for 2006, as upward revisions for the second half of the year, based on new field start-ups, outpace a lower first half trend caused by slower-than-expected recovery after last autumn's hurricanes.
- **Non-OPEC supply** for 2005 is revised down by 55 kb/d due to lower North American NGL, South African non-conventional oil supply and crude production in Bahrain. The 2006 total is cut by 155 kb/d, mainly on weaker FSU and African levels. This leaves total non-OPEC supply at 51.3 mb/d. After a non-OPEC growth hiatus in 2005, a rebound to 1.2 mb/d (2.4%) in 2006 is expected, driven by the FSU, Africa and Latin America. OPEC NGL/non-conventional supply (now excluding Venezuelan syncrude) also grows by 290 kb/d in 2006 after 245 kb/d growth in 2005.
- **OPEC crude supply** (including Venezuelan heavy Orinoco output), averaged 29.6 mb/d in February, up by 220 kb/d from January's comparable 29.4 mb/d. Iraqi supply rose an estimated 335 kb/d to 1.8 mb/d on higher southern exports. Maintenance continued to limit UAE output, assessed at 2.5 mb/d. Nigerian production shut-ins centred on the Forcados stream reached 470 kb/d in late February, but average monthly supply fell by only 80 kb/d to 2.3 mb/d.
- **OPEC-10 supply** dipped to 27.8 mb/d compared to a notional target of 28.0 mb/d. Production slippage from Indonesia and Venezuela, plus unscheduled outages in Iran and Nigeria underpinned this decline, despite near-capacity production from other members. Producers at OPEC's 8 March meeting decided to hold target production unchanged.
- **The 'call on OPEC crude and stock change'** is revised upward, increases ranging from 0.1 mb/d for 2001 to 0.6 mb/d for 2005. Orinoco heavy crude is now classified within Venezuela's OPEC crude entitlement. It was previously included in this Report under the OPEC NGL & non-conventional category. Stripping out the impact of this one-off accounting change, the underlying call from 4Q 2005 onwards is revised down, due mainly to weaker global demand. The exception is first quarter 2006, when unscheduled non-OPEC supply outages predominate, pushing the call up to 30.2 mb/d. The 2006 average call matches last year's adjusted 29.0 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 February discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska and Russia are supported by preliminary February 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 (now including Venezuelan heavy Orinoco crude output) averaged 29.6 mb/d in February. This increase of 220 kb/d compared to the January level of 29.4 mb/d was driven by Iraq. There, crude supply rose by an estimated 335 kb/d to 1.8 mb/d on higher southern exports. Maintenance continued to limit UAE output, which for February is assessed at 2.5 mb/d, some 60 kb/d below January. Nigerian production continued to be affected by ethnic unrest. Shut-ins, centred on the Forcados system but also including the EA field, reached 470 kb/d in late February. However, when averaged over the month, and taking account of rising deepwater supply, Nigerian crude output fell by a lesser 80 kb/d, to 2.3 mb/d.

OPEC sustainable production capacity is now assessed at 32.6 mb/d on a nominal basis. Modest upward revisions were made for Saudi Arabia and Libya (to 10.6 mb/d and 1.7 mb/d respectively), although further increases are likely as early as April when production at new fields and facilities builds to plateau levels. When compared to February supply the capacity figure suggests spare capacity of 2.9 mb/d. However, this Report recognises that some of this historically modest level of spare capacity may be notional at best, particularly in the case of Indonesia, Iraq, Nigeria and Venezuela, for which there are reports of accelerated mature field decline and/or civil unrest which impedes the ability to boost supply in the short term. A more realistic, effective spare capacity estimate may therefore be around 1.7 mb/d. In addition, there are market-related constraints facing some Middle Eastern producers of heavy/sour crude which prevent output reaching capacity levels.

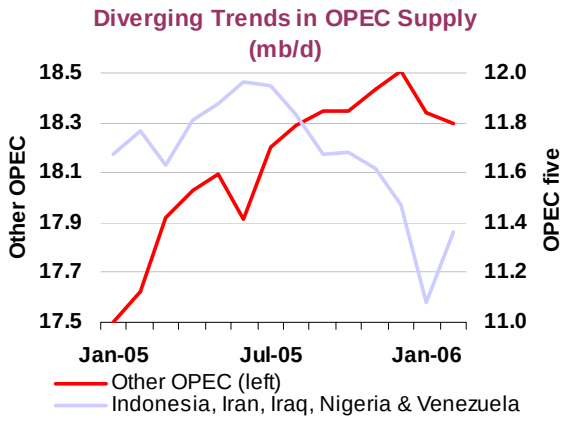
OPEC Crude Production
(million barrels per day)

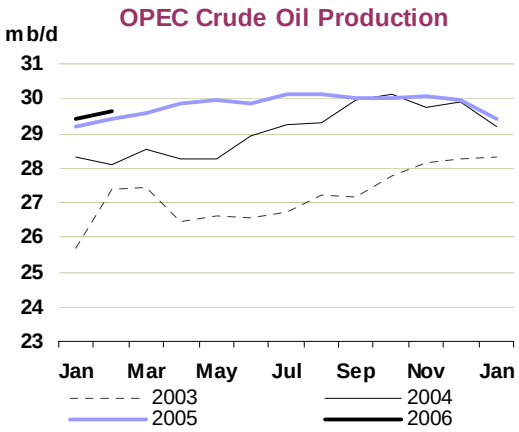
	1 July 2005 Target	February 2006 Production	Sustainable Production Capacity[1]	Spare Capacity vs February 2006 Production	Production vs. Target
Algeria	0.89	1.36	1.37	0.01	0.47
Indonesia	1.45	0.92	0.98	0.06	-0.53
Iran	4.11	3.70	4.00	0.30	-0.41
Kuwait[2]	2.25	2.52	2.60	0.08	0.27
Libya	1.50	1.67	1.68	0.01	0.17
Nigeria	2.31	2.27	2.60	0.33	-0.04
Qatar	0.73	0.82	0.83	0.01	0.09
Saudi Arabia[2]	9.10	9.45	10.60	1.15	0.35
UAE	2.44	2.48	2.65	0.17	0.04
Venezuela[3]	3.22	2.62	2.75	0.13	-0.60
Subtotal	**28.00**	**27.80**	**30.06**	**2.25**	**-0.20**
Iraq		1.84	2.50	0.67	
Total		**29.64**	**32.56**	**2.92**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.73)*	

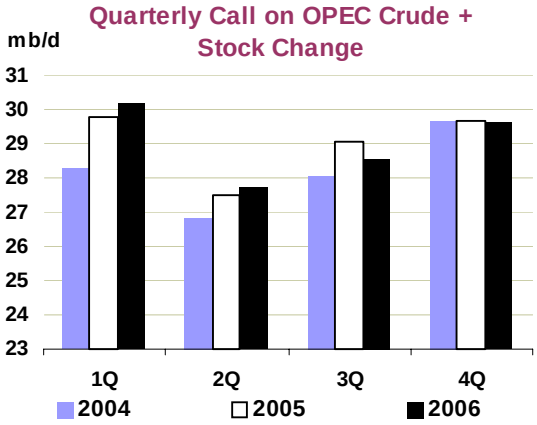
1 Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Includes Orinoco extra-heavy oil assumed at 610 kb/d in February

February OPEC-10 supply dipped to 27.8 mb/d compared to a target level of 28.0 mb/d which has been in place since last July. Ongoing production slippage from Indonesia and Venezuela, plus unscheduled outages in Iran and Nigeria underpinned this, despite near-capacity production from other members. Indeed since a July 2005 peak for total OPEC production of some 30.2 mb/d, a clear trend has been evident. Combined supply from the above four plus Iraq has slipped sharply, albeit with an Iraq-derived rebound in February. This has outstripped increased supply to the market from remaining OPEC producers. It is also likely that this internal dynamic played a part in the Organisation's market deliberations on 8 March.

So with this backdrop, plus persistent $60-plus marker crude prices, ongoing geopolitical concerns affecting Nigeria, Iran and Iraq and a spate of outages affecting non-OPEC supply there was perhaps little surprise that OPEC's 8 March meeting resulted in no change to target production levels. This time around, only Venezuela (and notably not Iran) appeared to be lobbying pre-meeting for a cut. The loss of 470 kb/d of late-February Nigerian production and the potential for imminent UN Security Council debate on the Iranian nuclear issue appeared to outstrip a, perhaps temporary, upswing in Iraqi February exports in the Organisation's thinking. However, the Conference agreed to continue monitoring the market, to take "appropriate and swift action, as and when the need arises". This suggests the potential for some move on production targets if a diminution of current geopolitical uncertainties and weakening market fundamentals materialise ahead of the next scheduled meeting on 1 June in Caracas. On the other hand, some analysts have taken up the point, already hinted at by Saudi Arabia and Kuwait, that changes in production target may now be unnecessary before end year. If demand growth and geopolitical uncertainty continue to support prices through June, a rising seasonal demand profile from then onwards could mitigate against further official output cuts.



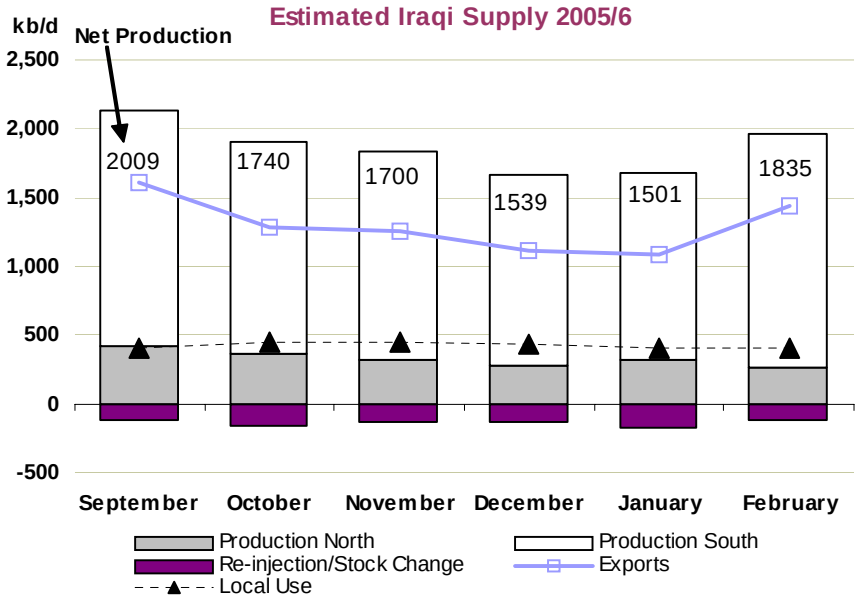




Iraqi supply, net of oilfield re-injection and deliveries to storage, is assessed up by 335 kb/d in February at 1.84 mb/d. This represented the highest output level since September 2005, with production having slipped successively lower from that month's 2.0 mb/d in the intervening period. Like last autumn's high, February supply was boosted by a sharp recovery in exports. In this instance however, the increase came entirely from the south of the country. Tanker liftings via Basrah Oil Terminal accounted for practically all of February's total 1.4 mb/d of exports. January exports averaged 1.1 mb/d. September 2005 was also the last month to see significant export liftings from Ceyhan (150 kb/d). In contrast, February marked the fourth straight month with no tanker loadings from the Turkish port. Storage at Ceyhan is believed still low and attacks against the Kirkuk to Ceyhan crude pipeline and associated refinery feed pipelines were ongoing in February. Northern crude output is assessed to have fallen back sharply as a result, albeit offset by the export-driven rise in the south. With ongoing outages affecting the Baiji refinery, total crude use in refineries and for direct burn is assessed flat at 0.4 mb/d for February.

The improved Iraqi supply performance in February came against a backdrop of intense unrest following attacks on the Shi'a shrine at Samarra in the third week of the month and ongoing political wrangling over senior positions in government and the State Oil Marketing Organisation (SOMO). With continuous attacks on pipeline infrastructure and refineries, recent reports of oil-related funds being diverted to insurgents and a sober assessment of short-term oil sector prospects from SOMO, the likelihood of February's supply increase being sustained is far from certain. Press reports suggest Basrah Light liftings could dip below 1.2 mb/d in March, although SOMO indicated it expected exports close to February's 1.4 mb/d. Either way, there is a shortfall versus term contracts which are

set at 1.57 mb/d. Bad weather, shortages of tugboats and a lack of crude storage in the south of the country are contributing to offtake delays. Despite this, the Oil Ministry has said that it retains a target of production capacity reaching 2.95 mb/d by end-year compared to a current 2.5 mb/d.



Renewed attacks by the Movement for the Emancipation of the Niger Delta (MEND) resulted in further upstream and downstream supply losses from **Nigeria** in February. Attacks on pipelines feeding the Forcados export terminal in the third week of February forced the shut in of some 135 kb/d of crude production, over and above the 106 kb/d closed since January. In addition, 115 kb/d of offshore EA field production, earlier restored after attacks in January, was again shut in. Together with late-month pipeline leaks affecting one of Chevron's Escravos flow stations, total outages in late February stood at some 470 kb/d. Partly offsetting this however was a build in supply from the deepwater Bonga field which was reported to have reached near-capacity 220 kb/d production in February. Output had earlier been reported at 170 kb/d during January. In all, we estimate that Nigerian crude supply fell by 80 kb/d in February to 2.27 mb/d. A separate 24 hour siege of ExxonMobil's Qua Iboe terminal from 8 March was not thought to have curbed exports or production.

All other things being equal, last November's start up at the Bonga field and upcoming March start at ExxonMobil's Erha field should have seen a sizeable increase in capacity for Nigeria. However, until the current spate of production outages is reversed, it would be premature to raise Nigerian capacity estimates from what may already be an optimistic 2.6 mb/d. Expectations for the weeks ahead differ across the political divide, with Oil Minister Daukoru suggesting in early March that 75% of shuttered production would be back within two weeks. In contrast, MEND says it is targeting the disruption of an additional 1.0 mb/d of supply this month, on top of the recent 470 kb/d.

The estimate of **Iranian** January crude supply was revised down by some 200 kb/d to 3.7 mb/d on evidence of markedly lower exports. February is thought to have seen an uptick in exports, including only the second cargo of acidic Nowruz crude to be lifted. However, the rise in exports was likely offset by lower domestic refinery runs, after a fire which shuttered the 200 kb/d Tehran refinery. February supply is therefore held flat at 3.7 mb/d, some 300 kb/d below capacity.

The new Oil Minister acknowledged that effective capacity was now around 4.0 mb/d, compared to a previous official 4.2 mb/d, although a targeted level of 4.1 mb/d was mentioned for April. State company NIOC is still struggling to attain 190 kb/d production capacity at the heavy/sour offshore Soroush and Nowruz fields. With a lack of buyers, NIOC has at times been forced to shut in production as offshore storage filled up. Nowruz may now be blended with condensate and lighter crude to make it more palatable. Technical problems are also cited as having curbed Soroush/Nowruz output since Shell handed over operatorship under the buy-back scheme in summer 2005.

Accounting for Venezuelan Heavy Oil

Venezuela's proven oil reserves of some 78 billion bbls are reported to include around 34 billion bbls of extra heavy oil in the Orinoco oil belt, or Faja. This oil is between 8° and 9° API and a significant volume (some 600 kb/d) is upgraded into synthetic crude oil ranging in quality from 17°API to 32°API. This synthetic crude is then sold on the market for refining in the conventional way. In addition, Venezuela produces up to 160 kb/d of a mixture of Orinoco bitumen, salt water and emulsifying agents known as Orimulsion. This boiler fuel is marketed in competition with coal, and by common consent lies outside the classification of conventional crude oil production.

Historically, the classification of synthetic crude has been less clear. From July 2002, this Report switched from a classification that reported Venezuelan heavy oil production as crude oil, to one whereby Venezuelan synthetic crude production was counted in the OPEC NGL and non-conventional oil category. Then, the change in methodology was considered consistent with:

- the treatment of Canadian synthetic crude produced from oilsands mining projects;
- the apparent intent of the joint venture projects producing the Venezuelan syncrude and;
- a number of statements suggesting that heavy oil and/or synthetic crude production was not included for consideration towards Venezuela's OPEC production quota.

While Venezuela's Orinoco reserves, like Canada's oilsands, can reasonably be regarded as a non-conventional resource, there are key differences between the two. Definitions vary as to what constitutes conventional oil. These range from crude oils above 20°API (gravity definition), those contained in localised reservoirs sitting above water or water bearing sediments (geological definition) and those oils flowing at reservoir temperature and pressure (viscosity based definition). Under the latter definition at least, there is a clear distinction between the Canadian oilsands mining projects and Venezuelan Orinoco crude production. Orinoco crude flows at reservoir temperature and pressure, whereas oil from the former does not. Similarly, in the context of Canada, heavy Albertan oil produced by well bores (e.g. Steam Assisted Gravity Drainage, or SAGD) has always been classified as conventional crude oil production, in contrast to the volumes upgraded after ore mining. At least in terms of production technology therefore, there appears a clear rationale for classifying Venezuelan Orinoco production, prior to upgrading, alongside conventional OPEC crude supply.

More importantly than the semantics of the conventional/non-conventional distinction however is the test of how the bulk of the industry - IOCs, NOCs, refiners, traders, governments and investors – considers a given portion of production. Canvassing opinion amongst these groups has shown a clear belief that Venezuelan heavy oil production (excluding Orimulsion) should be included in monthly estimates of Venezuelan crude supply and capacity, and which therefore counts towards Venezuela's OPEC quota. Not least is the observation from the OPEC Secretariat that it treats Orinoco production in this way. Whether in reality the four Orinoco joint ventures are required to alter output when OPEC production targets change is less clear cut. It has been noted in the past that state oil company PDVSA recognises the technical problems with varying upgrader unit operating rates too frequently and has tended to shoulder responsibility for production changes itself. That said, there is evidence that some of the joint venture operators have been required to restrict operating levels in the past.

Changes in OMR Methodology for Venezuelan Crude Supply

(thousand barrels per day)

		categorised as:	2001*	2002	2003	2004	2005
Old Basis:	**Venezuela conventional crude**	**OPEC crude**	**2,677**	**2,275**	**2,005**	**2,167**	**2,101**
	Venezuela NGL & condensate	OPEC NGL & non-conventional	225	216	183	208	215
	Venezuela Orimulsion	OPEC NGL & non-conventional	110	122	111	155	160
	Venezuela Orinoco synthetic crude	OPEC NGL & non-conventional	125	302	327	393	565
	Total Venezuelan Oil		**3,137**	**2,915**	**2,627**	**2,923**	**3,042**
New Basis:	Venezuela conventional crude	OPEC crude	2,603	2,185	1,934	2,057	2,077
	Venezuela Orinoco crude	OPEC crude	204	405	424	533	629
	Total Venezuela crude	**OPEC crude**	**2,807**	**2,590**	**2,358**	**2,590**	**2,706**
	Venezuela NGL & condensate	OPEC NGL & non-conventional	225	216	183	208	215
	Venezuela Orimulsion	OPEC NGL & non-conventional	110	122	111	155	160
	Total Venezuelan Oil		**3,142**	**2,929**	**2,652**	**2,953**	**3,081**

* Prior to 2001, un-upgraded heavy oil supply was included in Venezuelan crude production estimates

Accounting for Venezuelan Heavy Oil (continued)

This Report will henceforward include Orinoco heavy crude production in its estimates of Venezuelan monthly crude supply, but retains Orimulsion output within the OPEC NGL/non-conventional category. It is hoped this will bring the Report more in line with standard industry practice and contribute to oil market transparency. Having effectively altered the definition of the "call on OPEC crude and stock change", there is a one-off upward shift in the call this month. This however is an accounting change and does not alter the trend in the call over time.

March 2006 OMR: Revisions to the "Call on OPEC Crude & Stock Change" vs February Report
(million barrels per day)

	4Q 2005	1Q 2006	2Q 2006	3Q 2006	4Q 2006	2005	2006
Total Revision to Call	**0.5**	**0.8**	**0.5**	**0.2**	**0.1**	**0.6**	**0.4**
attributable to Orinoco accounting change	0.6	0.6	0.6	0.6	0.6	0.6	0.6
attributable to other supply/demand changes	-0.1	0.2	-0.1	-0.4	-0.5	0.0	-0.2

It is important to note that the Venezuelan Orinoco crude element included in this new accounting basis comprises feedstock to the four upgrading units and not the output of synthetic crude. Under the old methodology, the latter was included under the OPEC NGL and non-conventional oil category, whereas un-upgraded Orinoco supply was counted with conventional crude. This partly accounts for the now slightly higher estimate of total Venezuelan oil supply, since heavy crude feedstock exceeds synthetic crude output by around 10%. However, we have also taken the opportunity to revise historical monthly conventional crude supply estimates where appropriate. The changes only affect data from 2001, when the first of the upgraders began operation.

At the time of writing the UN Security Council was due to begin discussion of an IAEA report into Iran's nuclear programme (see Report dated 10 February 2006). Statements from the Oil Minister around the time of the 8 March OPEC meeting reiterated that oil exports would not be affected, even in the hypothetical event of the nuclear issue stand-off resulting in multilateral sanctions on Iran. These were echoed later by the country's Foreign Minister. However a more hard-line stance was taken by Iran's IAEA delegation last week which suggested any move towards sanctions could lead Iran to review its oil policy.

Despite heightened diplomatic tensions surrounding the Iranian nuclear issue, Japan in February reiterated its commitment to the 260 kb/d Azadegan field development project. Recent cost increases and slow progress in mine clearance have delayed the project. Azadegan and other major new field developments such as Yadavaran (involving China's Sinopec and India's ONGC) may benefit from a proposed review of the buy-back contracts terms under which foreign upstream companies must operate in Iran. Proposals include retaining developers in a consultancy role after projects are handed back to NIOC and providing incentives for field developers to exceed targeted production levels through the application of new technology.

Saudi Arabia's supply is estimated unchanged from January's revised levels of 9.45 mb/d in February. Evidence of increased spot tanker chartering for February is countered by reports of reduced operations at the Yanbu Samref refinery. On 8 February, Aramco announced start-up at Phase 3 of the Haradh project which will build to plateau 300 kb/d output levels of Arab Light crude during second quarter 2006. A notional 100 kb/d has been added to this Report's estimate of Saudi capacity, with further incremental volumes likely to be added when peak production levels are attained. Haradh is the first part of an investment programme which aims to add new production amounting to 2.4 mb/d by 2009. On a net basis Saudi Arabia is seeking to reach installed capacity of 12.5 mb/d by the end of the decade.

Oil markets spiked following news of a 24 February suicide bombing at the Kingdom's Abqaiq processing facility. Up to 7 mb/d of Arab Light and Arab Extra Light crude passes through Abqaiq en route for the Kingdom's refineries and the Yanbu (Red Sea) and Ras Tanura and Juaymah export terminals on the Gulf. However, the attack failed to breach the perimeter of the facility and there was reported to be no impact on Abqaiq operations or oilfield production.

Modest adjustments have also been made to expected 2006 NGL and condensate supply for **Qatar** and **Indonesia.** The Oryx GTL project in the former now looks likely to have a slower build-up in

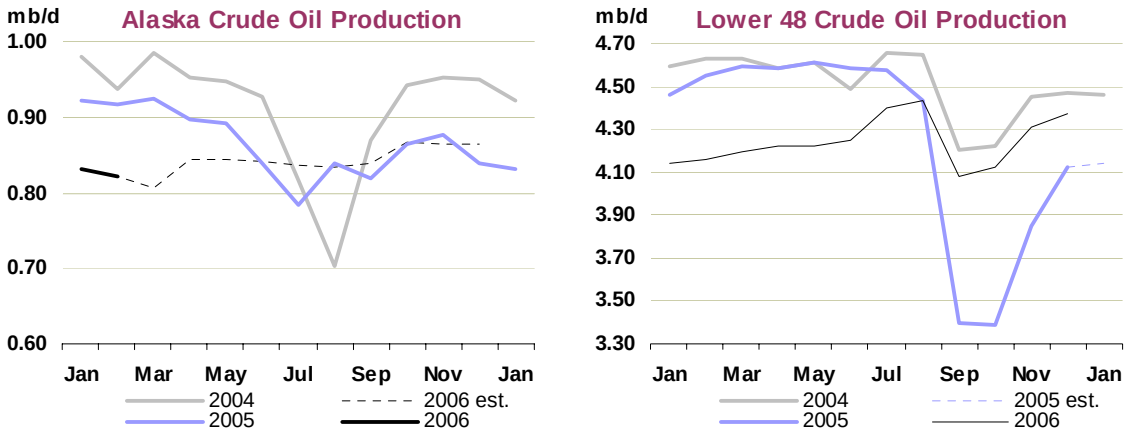
supply than earlier anticipated by this Report, trimming 2006 supply by 15 kb/d. In Indonesia, NGL production volumes have been trimmed by 20 kb/d for 2005 and by 30 kb/d for 2006.

OECD

North America

US – February Alaska actual, others estimated: Total US oil supply is estimated to have risen 60 kb/d in February to 7.14 mb/d, with crude oil accounting for just less than 5 mb/d of the total. However, this was some 160 kb/d below last month's projection, as early indications for Alaskan, US GOM and total US NGL supply came in lower than expected. Alaskan output dipped in the third week of the month on outages facing Prudhoe Bay and Milne Point facilities. Estimated March supply has also been revised down following a pipeline spill at Prudhoe Bay which could see the temporary shut-in of up to 100 kb/d. Provisional 2006 US NGL supply also seems to be running markedly below expectations and this leads to a 30 kb/d downward revision for 2006 overall. NGL production in December fell in PADDs 2, 3 and 4.

Federal offshore Gulf of Mexico (GOM) output is also lagging levels expected in last month's Report. Whereas that Report assumed some 300 kb/d of supply remaining shut in February, US Minerals Management Service (MMS) data suggest the level of continued outage was nearer 360 kb/d. The latest of a fortnightly series of production reports by MMS on 8 March put shut-in GOM supply still at 348 kb/d. Nonetheless, GOM production has been revised up by some 15 kb/d overall for 2006. Upward revisions for the second half of the year, based on new field start-ups, outpace a lower first half profile caused by slower than expected post-hurricane recovery. Indications from the US that some 250 kb/d is likely to remain shuttered by the start of the next hurricane season in June have been replicated in this Report.

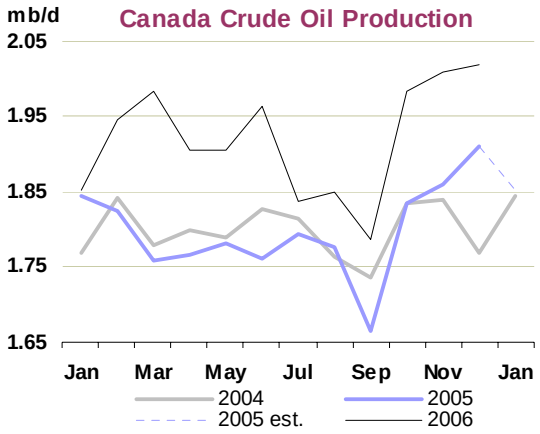


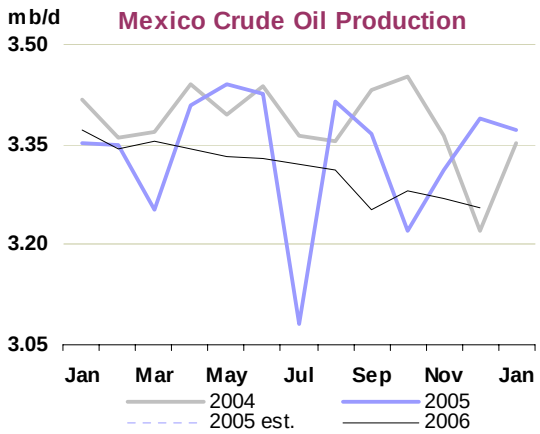
That said, ongoing work in bringing on new GOM supply is proceeding and February saw start-up from the Ticondera satellites of Kerr McGee's Constitution development. This could lead to production approaching 50 kb/d by the end of the year. Together with modestly higher expectations for late-year output from the Marco Polo and Thunder Horse developments, we have revised up expected second-half GOM supply by some 65 kb/d. Much will depend on the extent of outages caused by this year's storm season, though we retain a conservative GOM production profile overall, based on an assumed rolling five-year average of storm outages.

Canada – Newfoundland January actual, others December actual: Provisional data show Canadian oil production rose by 70 kb/d in December versus November, with increases coming from offshore East Coast crude and from bitumen and NGL supply. Husky Oil's White Rose project offshore Newfoundland reached 57 kb/d in December and 64 kb/d in January, with around 90 kb/d expected for second quarter. There were also reports in February of ongoing discussions between the Newfoundland authorities and shareholders in the proposed Hebron-Ben Nevis development. Go-ahead for the 175 kb/d project, potentially onstream by 2012, may be contingent upon a combination of provincial equity stake, higher royalties and related mandatory downstream investment.

A forecast rise for 2006 Canadian oil output of 240 kb/d, to 3.3 mb/d is heavily dependent on rising Albertan synthetic crude and bitumen supply, also to a lesser extent on successful attainment of plateau output at White Rose. In this regard, some concerns re-surfaced in February surrounding heavy oil upgrader unit outages, which so bedevilled 2005 performance. Reduced operating rates are

now forecast for the Shell Athabasca project following a conveyor belt breakdown in February. Lower throughput from the Muskeg River mine and associated Scotford upgrading unit are likely to persist until repairs are completed by end-March.

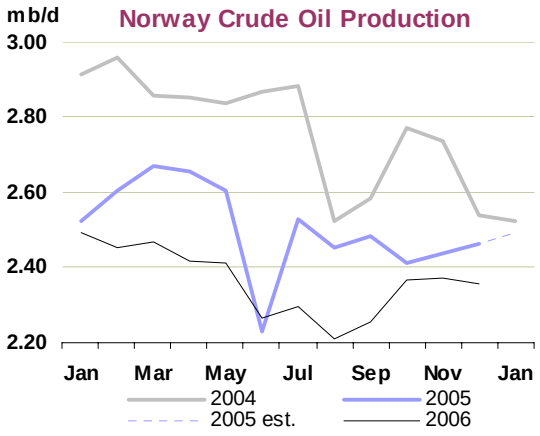


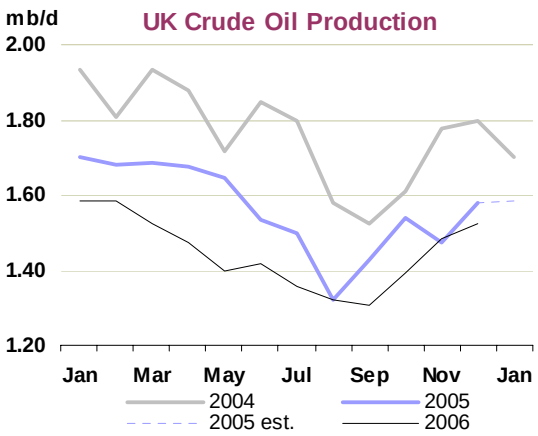


Mexico – January actual: January production came in at 3.37 mb/d of crude and 440 kb/d of NGL, similar to December levels. However, crude exports increased by 200 kb/d to 2.05 mb/d compared to December, with increased sales of heavy Maya crude into the US. This Report continues to assume a modest decline in total Mexican supply in 2006 as new field developments lag falling supply from the mainstay Cantarell field. Recent production levels suggest that an Energy Ministry statement in February predicting imminent attainment of 3.8 mb/d output may have referred to crude and NGL combined rather than just crude.

North Sea

Norway – December actual, January provisional: Rising December Norwegian supply has been followed by a renewed dip in output in January and February. At 2.45-2.5 mb/d crude production in the first two months of 2006 stands 50-100 kb/d below year ago levels. Weather-related delays and equipment failure seen in January ran on into February. Notably a gas flare problem at the Visund field (which is likely to curb that field's production through April) has resulted in fields such as Kvitebjorn and Heidrun being subject to similar equipment checks with a consequent downward impact on production. However, February did see the start-up of production from the Oseberg West Flank development, which had been delayed from an originally targeted third quarter 2005 start. Production should plateau at 25 kb/d this year. In all, Norwegian crude output is revised down by some 20 kb/d for 2006 and is now seen averaging 2.36 mb/d versus 2.51 mb/d in 2005. Condensate and NGL supply is expected to prove more resilient, adding some 60 kb/d to the 2005 total of 360 kb/d, on increased supply from the Mikkel, Kristen and Kvitebjorn fields.





UK – December actual: UK crude production continued on a recovering trend in December after the low of 1.32 mb/d seen last August. Output reached 1.58 mb/d in December. In all, oil supply estimates for 2006 are revised up by some 50 kb/d. This follows an upward adjustment for the

Magnus field in the Ninian system, for which earlier production estimates look to have been too low. Further modest upward revisions accrue to the Forties system, where the Nicol/Brenda facilities have been added from third quarter, and with the Goosander tie-back to the Kittiwake field from end September. However, these developments are at best likely to slow the rate of UK production decline in 2006. Total crude and gas liquids supply is seen at 1.7 mb/d in 2006 from 1.8 mb/d in 2005, albeit the rate of decline halving from that seen in 2005.

Former Soviet Union (FSU)

Russia – January actual, February provisional: Latest Oil Ministry data suggest a December-January drop in total oil production of 140 kb/d, with only a limited 40 kb/d rebound in February. There are concerns that the impact of intense cold weather on production facilities could be felt through March, and this Report has trimmed first quarter Russian output by 60 kb/d as a result. A more modest reduction of 35-40 kb/d is carried through to the end of the year following lower 2006 production targets announced by, amongst others, Sibneft and BP-TNK. Growth in output for 2006 is now seen coming in close to 2005 levels at 3%, taking average 2006 production to 9.77 mb/d. The early year downturn in growth has caused some, including the Economy Ministry, to predict 2006 growth at only 2%. However, both President Putin and the producing companies have suggested that shortfalls can be made up later in the year.

The growth expected for this year is heavily dependent on output from the newly started Sakhalin project in Russia's Far East attaining 200 kb/d late in the year, up from a recent 40 kb/d. This in turn awaits completion of a processing facility at the Chaivo field. Although there is some downside supply risk here, it is likely countered by this Report's deliberately conservative forecast for 2006 for the financially embattled producer Yukos. While Yukos production has stabilised in recent months, we have replicated 2005's rate of decline until the status of the company and its assets becomes clearer.

FSU Net Exports of Crude & Petroleum Products

(million barrels per day)

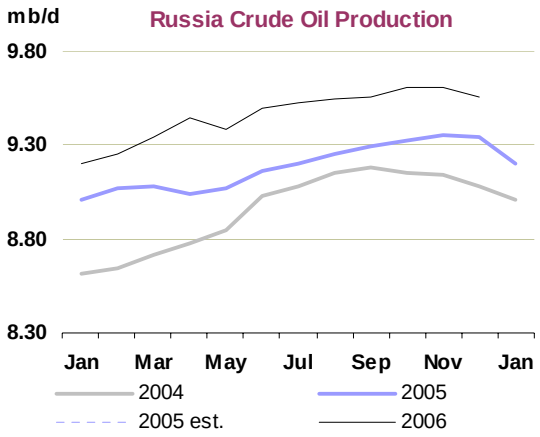
	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Nov-05	Dec-05	Jan-06	Latest month vs. Dec-05	Latest month vs. Jan-05
Crude											
Black Sea	2.20	2.27	2.22	2.38	2.30	2.23	2.25	2.18	2.03	-0.16	-0.04
Baltic	1.51	1.59	1.64	1.61	1.57	1.55	1.52	1.60	1.48	-0.12	-0.03
Artic/FarEast	0.25	0.19	0.19	0.19	0.22	0.17	0.15	0.15	0.09	-0.07	-0.08
Crude Seaborne	3.96	4.05	4.04	4.18	4.08	3.95	3.92	3.94	3.59	-0.35	-0.15
Druzba Pipeline	1.10	1.15	1.13	1.10	1.14	1.23	1.25	1.26	1.20	-0.07	0.10
Other Routes	0.23	0.25	0.24	0.26	0.24	0.26	0.27	0.28	0.28	0.00	0.05
Total Crude Exports	5.29	5.45	5.41	5.54	5.46	5.44	5.45	5.48	5.07	-0.41	-0.01
Of Which: Transneft	3.76	4.20	4.01	4.26	4.26	4.32	4.37	4.41	4.17	-0.23	0.40
Products											
Fuel oil	0.90	0.93	0.78	0.91	1.02	1.04	1.04	1.11	0.92	-0.19	0.16
Gasoil	0.84	0.87	0.89	0.80	0.85	0.95	0.87	1.05	1.00	-0.05	0.22
Other Products	0.46	0.58	0.58	0.56	0.58	0.60	0.57	0.58	0.62	0.04	0.11
Total Product	2.19	2.38	2.25	2.27	2.45	2.58	2.47	2.74	2.54	-0.20	0.47
Total Exports	7.48	7.83	7.66	7.81	7.91	8.02	7.92	8.22	7.61	-0.61	0.47
Imports	0.01	0.02	0.01	0.01	0.02	0.02	0.03	0.02	0.01	0.00	0.00
Net Exports	7.47	7.81	7.64	7.80	7.89	8.00	7.88	8.21	7.60	-0.61	0.47

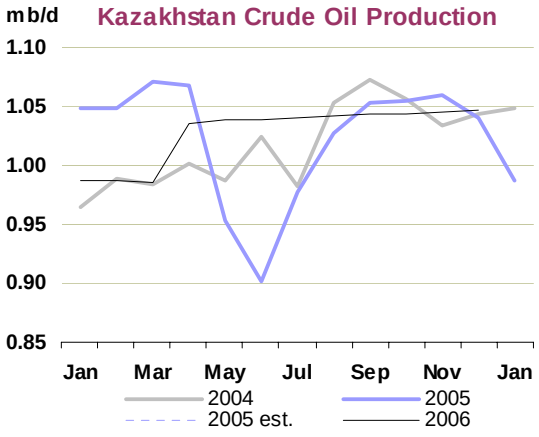
Sources: Petro-Logistics, IEA estimates

FSU net exports in January were hit by a combination of storm-related loading delays for seaborne supplies, and freezing temperatures that both hampered oilfield operations and boosted indigenous fuel demand. Provisional data show total FSU exports down by some 600 kb/d versus December, with seaborne crude exports hit particularly hard. Early indications for Russian crude exports however suggest a near-200 kb/d rebound last month and March schedules are up again by a similar amount. However February fuel oil exports reportedly remained low. Exporters would certainly seem to have ample incentive to maximise March crude exports, to the extent allowed by disrupted production, since export duties rise by 16% to $186/tonne on 1 April. Products export duties will rise later in April.

Regarding longer-term export prospects, Transneft was said to be seeking loans for its proposed East Siberian pipeline on which construction is due to start later in 2006. In February environmental authorities were reported to have approved the pipeline route, despite ongoing protests about the line's potential impact. The first phase of 600 kb/d could be onstream by 2008. Transneft also reported in

February that it would complete in 2006 a feasibility study for the northerly Kharyaga (Timan Pechora) to Indiga crude pipeline. Producer crude commitments for the project have been less than expected however and may see an initial project phase smaller than the previously mooted 480 kb/d.





Kazakhstan – January actual: January data showed the impact of very cold weather to be just as marked for Kazakhstan as for Russia. The failure of a process vessel at the Tengiz field due to plummeting temperatures will now restrict output levels until late March. Furthermore, operator Tengizchevroil indicated in February that it expects 2006 production to be largely unchanged from 2005. Last month's upward adjustments to 2004 and 2005 output data look unlikely to signal renewed growth in 2006, with the government now planning on the basis of output rising by only 1% this year. This Report's forecast is trimmed accordingly, by 45 kb/d compared to last month and leading to Kazakh liquids output remaining at 1.28 mb/d for the year. The opening of the first 200 kb/d phase of the Atasu-Alashankou pipeline to China is scheduled for mid-2006. However, given downgraded expectations for Kazakh 2006 supply, the line will likely rely on Russian crude in the first instance. With debate still surrounding expansion of the CPC pipeline from Kazakhstan, Russia retains considerable influence on the export infrastructure of its former client Republics.

Other Non-OPEC

Revisions to Other Non-OPEC Estimates

A 20 kb/d upward adjustment is made to 2006 **Australian** production. This follows the advancing of start-up at the Enfield project in the Carnarvon Basin to the third quarter and sharper than expected February recovery from the Cossack field.

In Latin America, offshore project delays for **Brazil,** notably involving Albacore Leste and Golfinho, cut 30 kb/d from this year's forecast. However, this is countered by a similar magnitude upward adjustment for **Argentina**, where late 2005 production was seen to be running higher than expected.

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	14.09	14.32	0.22	14.07	14.30	0.23	-0.02	-0.01	0.00
Europe	5.64	5.36	-0.28	5.64	5.39	-0.25	0.00	0.03	0.02
Pacific	0.59	0.55	-0.04	0.58	0.57	-0.02	0.00	0.02	0.02
Total OECD	**20.32**	**20.23**	**-0.09**	**20.30**	**20.26**	**-0.04**	**-0.02**	**0.03**	**0.05**
Former USSR	11.64	12.21	0.57	11.64	12.10	0.46	0.00	-0.11	-0.10
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	3.66	0.04	0.00	0.04	0.04
Other Asia	2.73	2.82	0.09	2.73	2.80	0.07	0.00	-0.02	-0.02
Latin America	4.28	4.48	0.21	4.29	4.49	0.20	0.01	0.00	-0.01
Middle East	1.86	1.81	-0.05	1.83	1.79	-0.04	-0.03	-0.01	0.01
Africa	3.69	4.22	0.53	3.67	4.14	0.47	-0.02	-0.08	-0.07
Total Non-OECD	**27.97**	**29.32**	**1.35**	**27.93**	**29.13**	**1.20**	**-0.04**	**-0.19**	**-0.15**
Processing Gains	1.86	1.90	0.04	1.86	1.90	0.04	0.00	0.00	0.00
Total Non-OPEC	**50.15**	**51.45**	**1.29**	**50.10**	**51.29**	**1.19**	**-0.05**	**-0.16**	**-0.10**

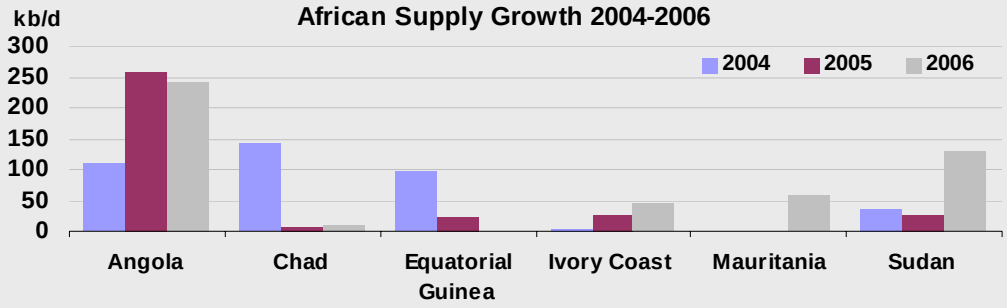
OMR = Oil Market Report

In Asia, an upward revision to 2006 supply for **China** of 35 kb/d results from now higher expectations for Daqing field output and for western onshore Changqing, which again saw sharply higher production in January. Partly offsetting the higher Chinese forecast is a 25 kb/d downward adjustment for **Vietnam**. Lower January supply implies a weaker forward profile for a number of fields including Su Tu Den.

Data for full-year 2005 production for **Bahrain** came in 20 kb/d lower than expected by this Report, a reduction that is also carried through 2006.

Political Risks Could Alter African Supply Growth Profile

Non-OPEC Africa looks likely to generate 465 kb/d of supply growth in 2006, or 40% of the total increase in non-OPEC production. This follows growth in excess of 300 kb/d in both 2004 and 2005. Angola has been the clear success story in terms of new regional deepwater production so far this decade and looks likely to continue in this vein with a string of new field developments doubling production to in excess of 2 mb/d by 2010. In February, Mauritania joined the ranks of African oil producers with start-up at the 75 kb/d Chinguetti field amidst expectations of more oil to come from the country. Equatorial Guinea, Chad, Ivory Coast and Sudan have also had notable recent successes in augmenting African supply, while Madagascar and Sao Tome amongst others could join the continent's list of producers this decade. However, recent political developments in a number of these countries highlight the inherent risks for foreign upstream operators. As elsewhere in the producing world, geopolitical, regulatory and economic risks pose at least as great an impediment to expanding production as do risks related to geology and technology.



In **Chad,** the government appears to be reneging on an agreement reached with the World Bank over the destiny of revenues from the Doba crude export stream. The World Bank helped finance a 1,000 km pipeline linking land-locked Chad with Cameroon on the Gulf of Guinea. In return Chad was required to earmark oil revenues for development spending. Now, Chad's government is attempting to loosen restrictions on how oil revenues are allocated, leading the World Bank to freeze escrow accounts. Producer ExxonMobil now finds itself stuck in the middle with January and February royalty payments being demanded by the government. Chad has threatened to order ExxonMobil to shut-in production unless payments are made.

In **Sudan,** disputes over revenue sharing between authorities in the north and south continue. Long delays have afflicted start-up of production from Blocks 3 and 7 in the southern Melut Basin, where ownership is split between Sudanese, Chinese, Malaysian and Indian interests. Slow progress in completing loading facilities at Port Sudan in the north are blamed, although Sudanese production is expected to rise to 500 kb/d from a current 350 kb/d this year. Nonetheless, political instability risks undermining longer term supply growth.

Mauritania is seen as potentially producing some 300 kb/d in the medium term, with the Tiof and Tevet discoveries likely to follow on the heels of February's start at Chinguetti. However, much will depend on the result of a dispute between producer Woodside and the new government over production sharing contracts agreed with the previous administration.

None of these potential areas of dispute throw up the same magnitude of risk to supply as does the current unrest in nearby Nigeria. However, should high prices generate a greater choice of investment opportunities, some international upstream operators are likely to favour territories with proven stability in the fiscal, regulatory and operating regime. There are already signs of less risk-averse independent operators and NOCs from the importing countries accounting for a growing share of new investment in geopolitically volatile regions.

OECD STOCKS

Summary

- **OECD total industry oil inventories** built by 6 mb in January as increases in main product categories outpaced draws in crude and 'other products'. The product build came mostly in the US, where heavy imports boosted gasoline and distillate supplies and warmer weather reduced heating demand. The build in the US was partly offset by falling Pacific crude stocks. Forward demand cover came to 51 days in January, on par with last month and a year ago.

Preliminary Industry Stock Change in January 2006 and Fourth Quarter 2005

(million barrels per day)

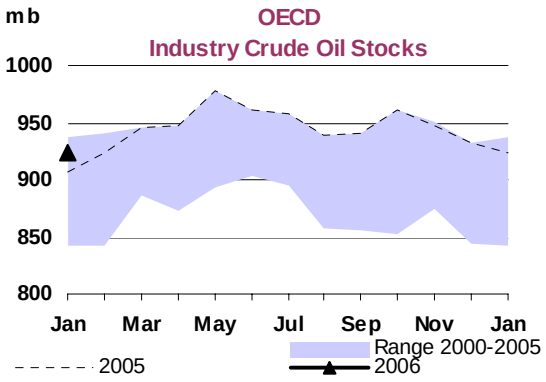
	January (preliminary)				*Fourth Quarter 2005*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.14**	**0.16**	**-0.29**	**-0.27**	**0.11**	**-0.12**	**-0.10**	**-0.10**
Gasoline	0.59	0.05	0.06	0.70	0.08	0.08	0.00	0.16
Distillates	0.25	-0.03	0.01	0.24	0.16	-0.01	-0.18	-0.03
Residual Fuel Oil	0.09	0.00	0.02	0.11	0.02	-0.03	-0.04	-0.04
Other Products	-0.38	-0.01	-0.12	-0.51	-0.31	0.01	-0.04	-0.33
Total Products	**0.56**	**0.01**	**-0.03**	**0.54**	**-0.05**	**0.05**	**-0.26**	**-0.25**
Other Oils[1]	-0.02	-0.03	-0.03	-0.08	-0.20	-0.03	-0.04	-0.27
Total Oil	**0.40**	**0.15**	**-0.35**	**0.19**	**-0.14**	**-0.09**	**-0.39**	**-0.62**

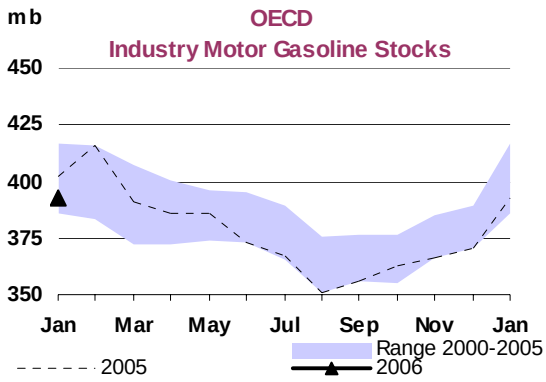
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude stocks** fell by 8 mb in January with draws centred in the Pacific and to a lesser extent in North America. End-January total OECD crude stocks were 16 mb above last year, at 923 mb. Japanese refiners continued to increase runs in January to keep pace with strong domestic demand and to rebuild depleted product inventories. Mexico was the main driver behind a 4 mb draw in North America. European crude stocks increased due to reduced regional runs and a lack of extra-regional outlets for domestic crudes, mitigating the overall OECD draw.

- **OECD industry distillate stocks** increased by 7 mb in January to 540 mb, or 21 mb higher than last year. Atlantic Basin distillate stocks were above seasonal norms as movement of product into storage was favoured by a contango in paper markets. The build in January was centred in the US where weaker demand and heavy imports increased prompt supplies. In February, US inventories continued to build and kerosene stocks in Japan closed above year-ago levels.

- **OECD industry gasoline stocks** rose by 22 mb in January to 392 mb, closing 10 mb below last year. The build was mainly centred in the US where high imports lifted stocks above their seasonal range. This was reflected in a large build in blending components which continued in February. In contrast, finished gasoline stocks fell, as refineries went into maintenance and shifted away from MTBE reformulated gasoline. European and Pacific inventories posted modest increases in comparison.



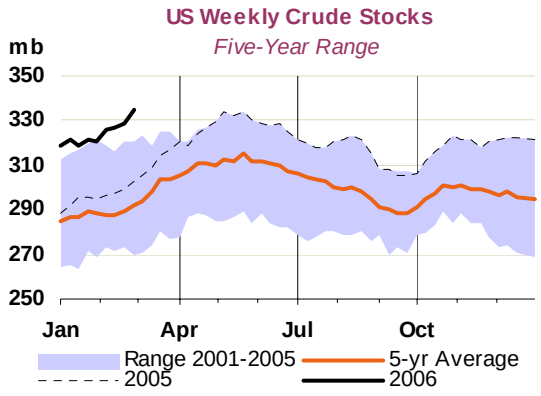


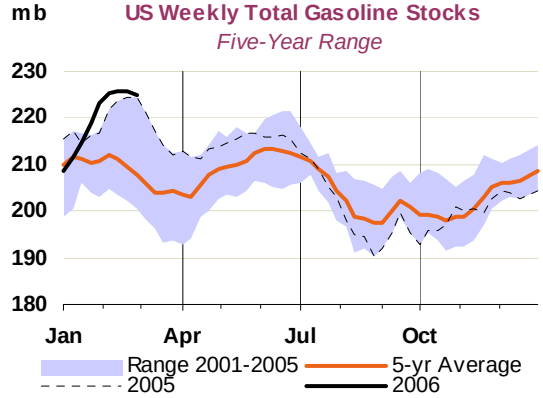
OECD Industry Stock Changes in January 2006

OECD North America

Crude inventories in North America fell by 4 mb in January with the draw stemming from Mexico. US stocks were broadly unchanged as recovering Gulf of Mexico production and declining US crude runs balanced a fall in imports. In February, US crude stocks rose to 335 mb, the highest level since May 1999. Crude demand fell as refiners moved deeper into maintenance and imports averaged about 9.9 mb/d. While a narrower WTI/Brent spread will limit movement of Brent related crude, maintenance will reach a peak of 1.1 mb/d in March, suggesting that US inventories will continue to trend towards the upper end of their range.

A steep contango on NYMEX futures continues to encourage moving crude into storage. Stocks at Cushing, the delivery point for the contract, reached 23.5 mb in the first week of March, an all time high since the series has been published. The persistence of the contango on NYMEX crude futures since late 2004 has been driving storage capacity expansions in the US and 1.1 mb of capacity was added in Cushing in January 2006. Another 3.5 mb was reportedly added to Louisiana Offshore Oil Port (LOOP) storage tanks in January to meet the growing need to segregate crude by quality. North





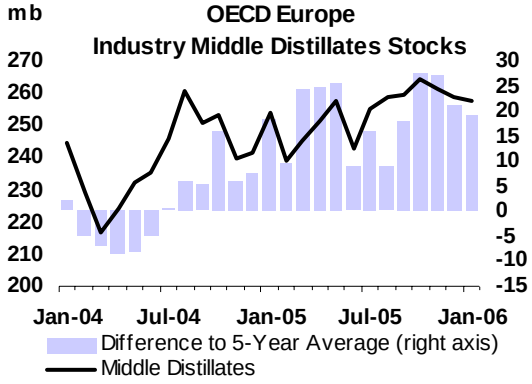
American product stocks rose by 17 mb in January, with the US leading the increase. Inventories of US gasoline rose by 18 mb in the month as high imports continued apace. US-50 gasoline stocks continued to build through February, reaching their highest level since April 1999. The increase in gasoline stocks came despite robust demand as mild weather has allowed US refiners to scale back from distillate production and maintain yields above seasonal norms. The main driver behind the build, however, has been record high imports, these averaging 1.2 mb/d for the week ending 3 March. This was reflected compositionally in gasoline stocks by a large build in blending components (these include foreign gasoline not meeting US specifications). High arrivals were driven into storage by a very steep contango for unleaded gasoline futures on the NYMEX.

In contrast to blending components, finished gasoline stocks fell over the period. The decline can be explained by two factors. With maintenance under way and the seasonal change over to summer quality material, refiners turned over tanks to refill with new specification. A second driving factor is the phase out of MTBE reformulated gasoline (RFG) in favour of an ethanol based blend. The different properties of MTBE and ethanol mean that refiners will now have to blend components at the last step in the distribution chain and no longer at the refinery. Ethanol, unlike MTBE, has an affinity for water and must be transported and stored separately from the base gasoline mixture. Leaving the refinery gate will be a blendstock (RBOB) that will be blended with ethanol. As such, Rbob is not finished gasoline and is included in the blending components category. Stocks of RBOB rose 4.6 mb in February while RFG inventories fell by 2.2 mb.

Due to record high seasonal temperatures in the main consuming Northeast region in January, demand for heating oil fell in the US and Canada, leading to an 8 mb increase in North American distillate inventories. In February, US distillate stocks trended sideways despite the weather turning colder. Total distillate imports were up by 45% against the previous year, with the heating oil component more than tripling volumes seen in 2005. US residual fuel oil inventories also built in the January/February period as utilities switched back to natural gas with falling natural gas prices.

OECD Europe

Crude inventories in Europe built by a preliminary 5 mb in January, ending the month at 333 mb or 10 mb higher than last year. The build came mostly in the Netherlands, where refinery runs were down by 13% month-on-month due to problems at the 412 kb/d Pernis refinery in Rotterdam. Smaller builds were seen in the UK, Germany and in France, where runs were lower due to weaker refining margins, outages and seasonal maintenance. Offsetting the upwards move was a draw in Norwegian offshore crude holdings.

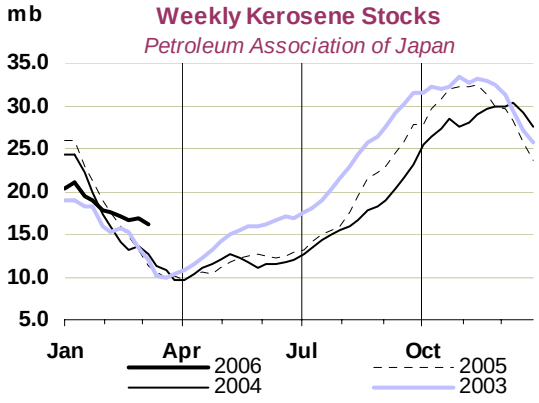


European products stocks trended sideways in January at 548 mb with the exception of gasoline which ended slightly higher. Distillate stocks were marginally down despite the return of cold weather and held 20 mb above their five-year average. While heating oil deliveries in Germany were higher against (a weak level) last year, distillate stocks showed no change. It appears that end-user stocks were drawn instead, these falling to 53% of capacity in January from 56% in December. Deliveries in France showed no year-on-year change and inventories held broadly level. Beyond gasoil, increases in jet inventories likely supported overall distillate stocks, rising on Middle East imports and a strong contango in swaps and futures prices.

Fuel oil inventories appeared little changed despite lower FSU supplies and increased demand for low-sulphur fuel oil (LSFO). Russian fuel oil exports were down due to higher domestic demand. European power generation needs rose, in France due to lower hydro generation and in Italy on reduced availability of Russian natural gas.

OECD Pacific

Crude oil stocks in the Pacific fell by 9 mb in January, the draw stemming from declines in onshore inventories in Japan. At 150 mb, Pacific crude stocks ended 29 mb below January last year. Japanese refiners increased runs by another 5% in January (from a downwards revised December throughput level) as the weather was colder-than-normal and demand for heating fuels remained high. In Korea, crude oil stocks edged higher as runs were held flat from December and imports were 20% higher than last year. Weekly data from the Petroleum Association of Japan show that Japanese crude stocks rebounded from recent lows in February, despite continued high throughputs.



OECD Pacific product inventories were relatively unchanged in January, with offsetting changes in Japan and Korea. Closing January at 167 mb, total product inventories ended 20 mb below last year. In Korea, distillates built by more than 3 mb, mainly on lower demand and reduced exports. Japanese distillates fell in January and February, albeit with the pace of decline was decelerating as kerosene inventories saw less downward pressure with the return of warmer temperatures. Japanese kerosene stocks appear ample at the end of February to cover the remainder of the winter season. Kerosene stocks are currently trending 45% higher than a year ago. Residual fuel oil demand was very high in Japan in January, but lower exports kept inventories unchanged.

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

Total OECD industry stocks ended January at 2595 mb, 6 mb higher than December and 17 mb higher than last year. On a year-on-year comparison, North American and European inventories closed at 62 mb and 5 mb higher respectively. Total industry inventories in the Pacific were 51 mb lower than the previous year. Days of forward demand cover came to 51 days for the OECD as a whole, on par with December and with the previous year. On a regional basis, forward cover came to 49 days for North America, 61 days for Europe and 42 days for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for January 2006

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**35.2**	**9.6**	**-28.7**	**16.1**	**Total Oil**	**1.9**	**0.5**	**-5.3**	**0.1**
Total Products	25.4	-8.9	-19.7	-3.2	*Versus 2003*	3.5	1.5	-5.1	1.2
Other Oils[1]	1.5	4.2	-2.1	3.6	*Versus 2002*	2.8	2.5	-2.6	1.7
Total Oil	**62.2**	**4.9**	**-50.5**	**16.5**	**Total Products**	**0.7**	**-0.5**	**-2.1**	**-0.2**
Versus 2003	112.1	12.5	-34.4	90.2	*Versus 2003*	1.6	0.3	-1.5	0.5
Versus 2002	128.2	51.6	-25.3	154.4	*Versus 2002*	1.2	1.3	-0.6	0.9

1 includes feedstocks, NGLs and other hydrocarbons

Preliminary data for December were revised down by a total of 8 mb, a downward revision to North America partly offset by upwards adjustments to European and Pacific inventory holdings. A downward revision of 15 mb to preliminary US data, mostly in NGLs and 'other products', accounted for most of the move. Crude stocks were revised higher, mainly in North America and the Pacific. Revisions to product inventories were dominated by an increase of 11 mb in distillates, half of which came in Europe. November data have also been revised in this month's report with Canadian crude stocks 11 mb higher than estimated last month.

Revisions versus 10 February 2006 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Nov 05	Dec 05	Nov 05	Dec 05	Nov 05	Dec 05	Nov 05	Dec 05
Crude Oil	**11.4**	**2.7**	**-1.7**	**-1.0**	**0.5**	**3.4**	**10.2**	**5.1**
Gasoline	0.0	1.8	0.3	1.4	0.0	0.5	0.3	3.7
Distillates	0.0	2.7	1.0	5.8	-0.1	2.4	1.0	11.0
Residual Fuel Oil	0.0	-2.4	-0.5	-1.9	0.0	-0.5	-0.5	-4.8
Other Products	0.0	-4.9	-0.2	0.0	-0.6	-3.1	-0.8	-8.0
Total Products	**0.0**	**-2.8**	**0.7**	**5.3**	**-0.7**	**-0.6**	**0.0**	**1.8**
Other Oils[1]	-0.5	-14.4	1.6	0.3	0.0	-0.5	1.1	-14.6
Total Oil	**10.9**	**-14.5**	**0.5**	**4.6**	**-0.2**	**2.3**	**11.3**	**-7.6**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

Recent Developments in ARA Independent Storage

Total stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area fell in February. The decline came against a backdrop of lower crude runs, refinery outages, lower imports, and in the case of gasoil, increased deliveries. Gasoil inventories saw the largest changes in February. Cold weather and weaker prices led to increased buying in Germany, France and Switzerland. German household stocks also fell to 49% of capacity, from 53% in January. Russian material also bypassed ARA, going directly to the US. Gasoil inventories were still 22% higher than the recent five-year average and 10% above year-ago level at the end of February.

Gasoline inventories held relatively flat in comparison as exports balanced weak regional demand. A sharp drop in gasoline prices and high US inventories shut the spot arbitrage window for most of February, but term shipments to the US continued at high levels. Exports were also reported to France, where refinery problems reduced inland supplies, as well as to the Caribbean, Nigeria, Mexico and Iran. Fuel oil inventories fell on reduced supplies. February FSU seaborne exports of fuel oil fell sharply after freezing temperatures boosted demand from power stations in Russia.

Recent Developments in Singapore Stocks

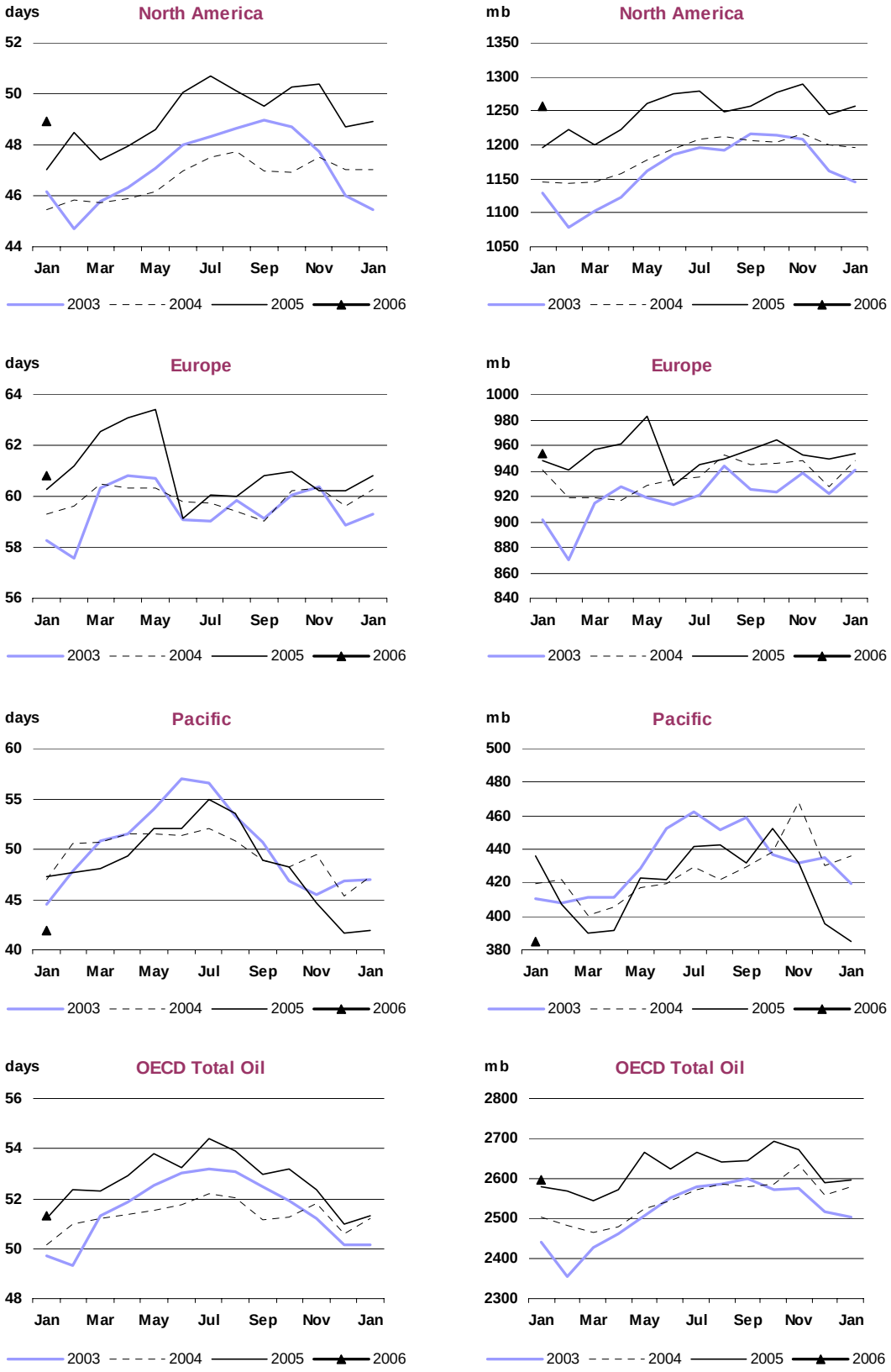
Singapore inventories, surveyed by International Enterprise, fell by 1.6 mb in February, with only middle distillates posting a modest gain. Residues accounted for most of the draw on steady demand from Northeast Asian power utilities and stronger bunker demand in the Singapore market. Demand from oil-fired power plants in Japan and Korea was strong as alternative LNG supplies remained tight. Regional availabilities of fuel oil were also reduced as refinery maintenance cut supplies from the Middle East and Korea. Lower Chinese imports mitigated the draw, leaving Singapore residue stocks above their five-year range.

Light distillate stocks, including naphtha and gasoline, nudged lower in February despite continued weak demand from Indonesia. Gasoline demand from Vietnam and the Middle East proved firm, and several bookings to Oman and Iran cleared surplus supplies. At the same time, gasoline exports from China, Taiwan and South Korea were lower. Refinery turnarounds also reduced Indian exports of naphtha by more than half, limiting regional supplies. Middle distillate inventories built modestly over the month on weak demand from China and Indonesia. Forward prices for gasoil in Singapore remained in contango, supporting 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

PRICES

Summary

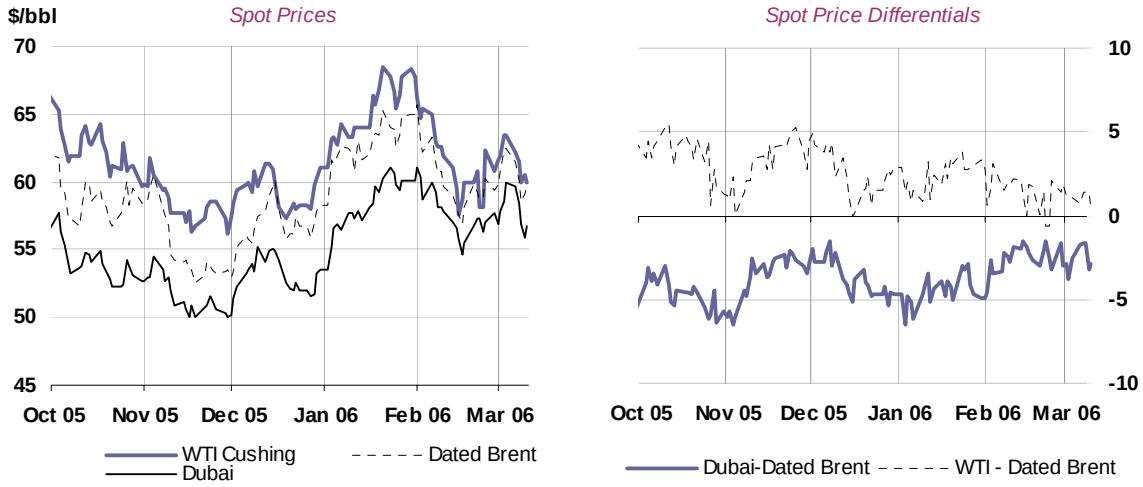
- **Crude futures** fell on average in February against a backdrop of high crude stocks in the Atlantic Basin and weaker crude demand associated with deepening seasonal refinery maintenance in the US. The prompt month contract for light-sweet crude on the NYMEX lost an average $3.61 /bbl in February to reach $61.93 /bbl while IPE Brent fell by a more modest $2.72 /bbl to $61.14 /bbl. Crude futures followed a 'V' shape path, declining in the first half of February before rebounding on disruptions to Nigerian supplies and a foiled attack on a key processing centre in Saudi Arabia. Forward curves on crude futures were in steep contango for delivery in the near months and non commercial players held a net selling position on the NYMEX crude futures contract.

- **Physical crude** prices fell in general in February on weakness in Atlantic Basin crude benchmarks. February saw a material weakening of WTI against Dated Brent, WTI's premium narrowing from $2.42 /bbl on average in January to $1.45 /bbl. Brent traded briefly above WTI at the end of February, effectively closing spot transatlantic arbitrage for related crudes. Brent in turn showed weakness relative to medium sour Dubai. The spread between Brent (quoted in Asia) and Dubai swaps narrowed, allowing some of the Atlantic Basin's crude surplus to shift east.

- **Physical product** prices were dominated by sharp declines in US gasoline prices. The fall came despite a strengthening demand profile in preliminary weekly delivery figures. Inventories of blending components rose strongly on relatively high imports. The liquidation of winter-grade material and the phasing out of MTBE gasoline led to heavy selling. Heating oil in the Atlantic Basin fell against a backdrop of relatively comfortable stocks. The decline was moderated by higher heating demand with the return of more seasonal winter temperatures. High-sulphur fuel oil prices bucked the downward trend in lighter products, with larger gains seen more notably in Asia.

- **Product futures** remained in contango in February, encouraging further additions of product to storage. Futures crack spreads for gasoline traded on the NYMEX narrowed markedly, turning temporarily negative. The March gasoline contract (winter grade material) tumbled on high inventories and uncertainties over deliverability given the phase out of MTBE blended gasoline this year. Heating oil cracks on NYMEX held relatively steady over the month. At the time of writing, non-commercial players held a net buying position on the NYMEX heating oil contract.

Benchmark Crude Oil Prices



Oil Futures Prices in February

Crude futures were down on average in February with declines in WTI on the NYMEX outpacing those for IPE Brent. WTI weakened relative to Brent as the US moved deeper into scheduled refinery maintenance and crude stocks remained at the top end of the seasonal range. Stocks at Cushing, where the NYMEX contract is delivered, continued to trend at the highest levels since the US Energy Information Administration (EIA) has been reporting the series. Higher prompt availability in the US was reflected in wider time spreads at the front of the WTI curve than for IPE Brent. The contango on NYMEX (forward prices above prompt prices) in the first two months deepened from $0.86 /bbl on 1 February to $1.60 /bbl on 28 February. Over the same period the differential for IPE Brent moved from $0.67 /bbl to $0.76 /bbl.

Weakness in crude futures came mainly in the first half of February, prices rebounding thereafter. A sustained disruption to Nigerian supplies turned the market around. Shell declared *force majeure* on 18 February over Forcados (and by extension to the EA field) following militant attacks, interrupting a total of about 470 kb/d of supply. The disruption came while a sizeable amount of production remained shut in the Gulf of Mexico, Russian deliveries continued to be hampered by extreme temperatures and Iraqi exports only began to recover. The market also factored in the possibility that OPEC at its 8 March meeting would not reduce production quotas given the price and supply environment.

On the geopolitical front, a foiled attack on the key Abqaiq oil processing facility in Saudi Arabia at end-month also helped to lift prices. However, crude futures fell back by the end of the first week of March. The market adopted a 'wait and see' attitude as the International Atomic Energy Agency (IAEA) reconvened to consider Iranian nuclear issues. The IAEA meeting was inconclusive and the Iranian issue was referred to the UN Security Council. Pronouncements by Iranian officials continued to make clear that Iran would pursue its nuclear programme.

Prompt Month Oil Futures Prices

(monthly and weekly averages, $/bbl)

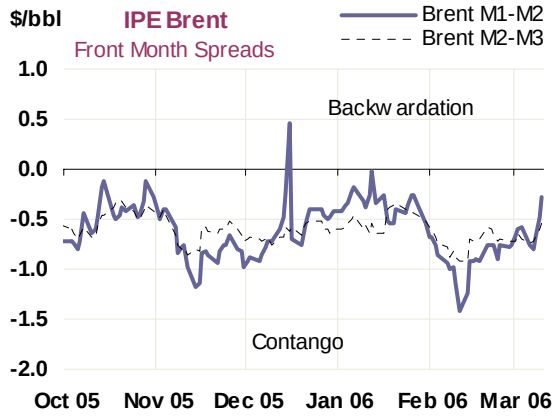
	Dec	Jan	Feb	Feb-Jan		Week Commencing:				
				Avg Change	%	06 Feb	13 Feb	20 Feb	27 Feb	06 Mar
NYMEX										
Light Sweet Crude Oil	59.45	65.54	61.93	-3.61	-5.8	63.04	59.36	61.39	62.28	60.89
Unleaded Gasoline	66.79	73.79	64.21	-9.58	-14.9	65.21	59.77	63.15	68.36	70.12
No.2 Heating Oil	73.35	75.06	70.84	-4.22	-6.0	70.79	68.37	70.43	73.57	72.06
No.2 Heating Oil ($/mmbtu)	12.59	12.89	12.16	-0.72	-6.0	12.15	11.74	12.09	12.63	12.37
Henry Hub Natural Gas ($/mmbtu)	13.43	9.14	7.52	-1.62	-21.5	7.68	7.15	7.40	6.76	6.62
IPE										
Brent	57.63	63.86	61.14	-2.72	-4.4	61.27	59.15	61.34	62.69	61.09
Gasoil	70.69	74.44	72.43	-2.01	-2.8	72.18	70.91	72.56	74.14	72.96
Prompt Month Differentials										
NYMEX WTI - IPE Brent	1.82	1.68	0.78	-0.90		1.77	0.21	0.05	-0.41	-0.20
NYMEX No.2 Heating Oil - WTI	13.90	9.52	8.91	-0.61		7.75	9.01	9.04	11.29	11.17
NYMEX Unleaded Gasoline - WTI	7.34	8.25	2.29	-5.96		2.16	0.41	1.76	6.08	9.23
NYMEX 3-2-1 Crack	9.53	8.68	4.50	-4.18		4.03	3.28	4.19	7.82	9.88
NYMEX No.2 - Natural Gas ($/mmbtu)	-0.83	3.75	4.64	0.89		4.48	4.59	4.70	5.87	5.75
IPE Gasoil - IPE Brent	13.05	10.59	11.29	0.70		10.91	11.76	11.22	11.45	11.88

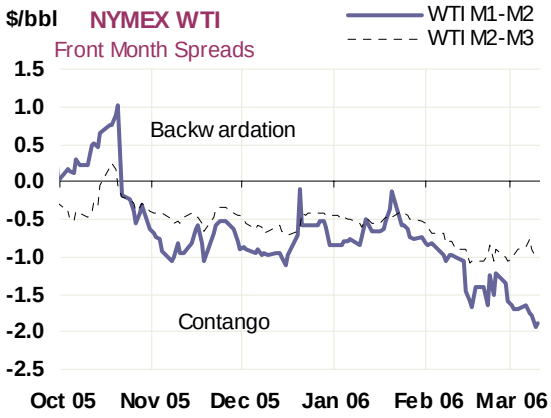
Gasoline dominated moves in product futures. March delivery for gasoline on the NYMEX lost on average $9.58 /bbl in February compared to more modest declines for NYMEX heating oil of $4.22 /bbl and IPE gasoil of $2.01 /bbl. The fall in the price of gasoline was prompted by swelling stocks on strong imports of blending components and a changeover to summer quality gasoline with the April contract. This, in conjunction with a phase out of MTBE blended reformulated gasoline this year, led to a sell-off of the March contract.

The fall-off in gasoline prices far outpaced declines in crude, compressing cracks spreads which turned temporarily negative before the April (summer quality) contract took over as the front traded contract. In contrast, heating oil cracks were relatively stable over the month. Upward pressure from higher heating demand in February was balanced by downward pressure from high inventories in the main consuming area in the Northeast US.

Crude Futures

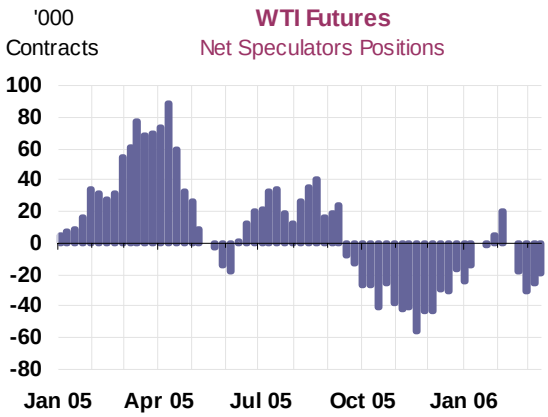
Forward curves on crude futures held in contango during February. Compared with their end-January position, forward curves shifted lower. The decline in individual months was not uniform across the forward curve. Prompt traded contracts fell faster, causing time spreads to widen at the front of the curve relative to future delivery months and the contango structure to deepen. Delivery months further forward saw more modest downward moves. This suggests market perception of weakness in the prompt contract as temporary. As such, market players moved paper demand for oil further along the curve, with a view that the current ratio of products to crude inventories may deteriorate. This in turn would result in greater demand for crude oil later in the second and third quarters of the year when Atlantic Basin refiners fully emerge from maintenance.





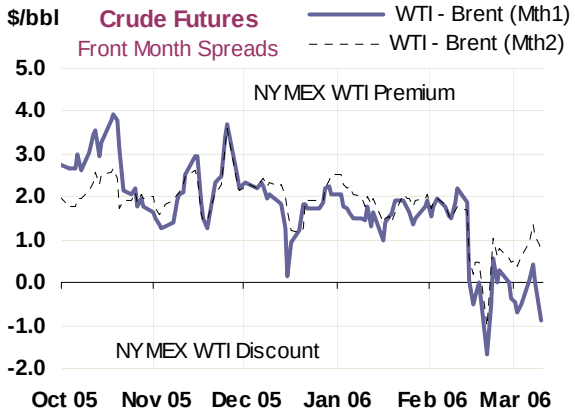
Larger forward premiums over physical prices or 'returns to storage' in the first 3 months for the NYMEX light-sweet crude contract continued to favour building inventories in the near term. With cash or physical prices discounted relative to futures, traders have an incentive to store oil as long as forward prices cover the purchase price of the crude and the cost of finance and storage. However, while the steeper contango in the term structure indicates ample prompt supplies of crude, it can, at the same time, also reflect increasingly higher costs of storage. In the case of WTI, the first to second month differential continued to widen and hold at above $1.50 /bbl in contrast to IPE Brent where the spread, after initially increasing, retrenched to under $1 /bbl. Stocks of crude oil at Cushing in the US Mid-continent, where the NYMEX futures contract is physically delivered, are running at all time highs.

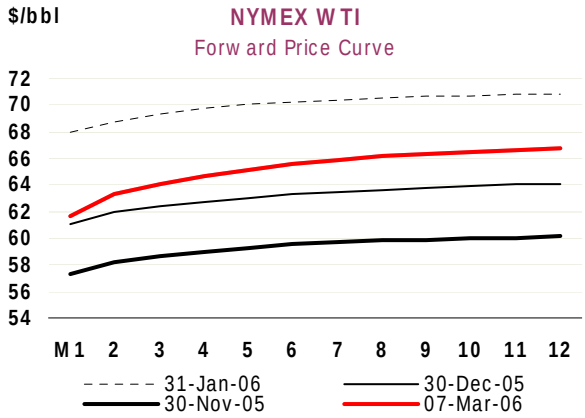
The persistence of the contango at the front of the crude curve also, as indicated in the previous Report, implies a 'negative roll yield'. Investors would stand to make a loss if they were to move or 'roll' forward their position. Since the beginning of the year, indices that are heavily weighted with a crude oil component imply a negative return for those long in these indices.



This contrasts with indices that have greater exposure to agricultural products such as sugar, wheat or corn as well as metals. In the short term, the combination of rising storage costs and negative incentives to enter a long position in near months can remove an element of support to price. It is therefore interesting in this context that non-commercial players on the NYMEX became net sellers on the crude contract.

The premium that NYMEX WTI typically enjoys over IPE Brent temporarily turned negative for the front traded contract in the third week of February, only to see this pattern repeated briefly in early March (see graphs below). While the premium at the time of writing was still positive, the weakness in the spread indicates that the market does not appear to be pricing in a need for arbitrage supplies to the US. This, in light of the discussion above, is rather a foregone conclusion.

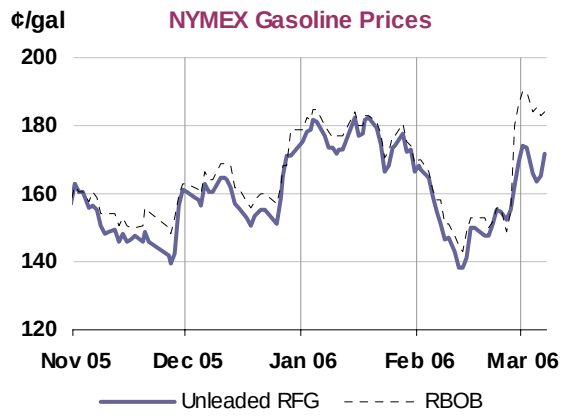


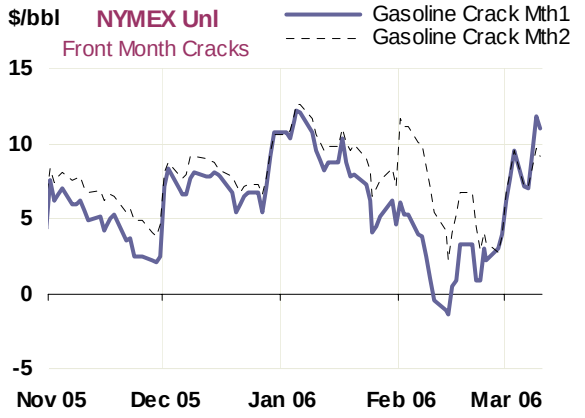


However, it is worth underscoring the set of factors that support this weakness. With deepening scheduled maintenance at Atlantic Basin refineries, and a high level of US crude inventories, US refiner demand for incremental foreign supplies is weak in the near-term. However, upward pressure on forward prices for the end of the second quarter follows as refiners fully exit maintenance, increasing their demand for crude oil. As mentioned, the market had already priced a 'no change' in quota policy by OPEC at its 8 March meeting. Beyond the expectation of OPEC continuing to run at full throttle, new capacity additions within OPEC were also a factor. Certain projects are coming on stream faster than anticipated with production reported to have begun for Saudi Arabia's Haradh Project (Arab Light quality) ahead of a planned April start up.

Product Futures

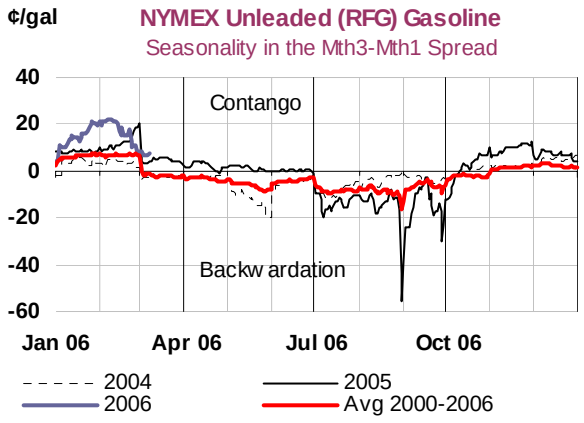
Product specification changes this year in the US are a source for a number of uncertainties. Lower-sulphur mandates for diesel come into force this year and the additive MTBE will be phased out of the gasoline pool. This can have implications for pricing in futures markets, and in the case of heating oil, product specification changes may have helped to shift, perhaps only temporarily, forward curves out of their usual seasonal trends. The change in specifications entails a possible need for alternative import sources if traditional foreign suppliers cannot meet the new specifications. Delivery logistics also need consideration. These include pipeline contamination issues, segregation of products in storage or building of new storage and new blending capacity to name but a few. Finally, beyond a change in product quality from winter to summer material, there remains a broader issue of turnover of inventories along the entire supply chain from refineries down to the wholesale and retail level.

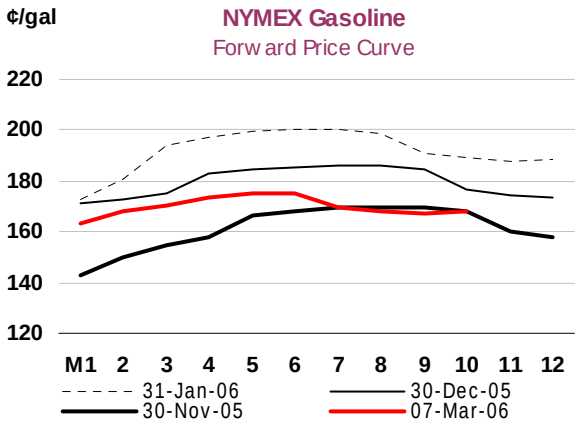




US gasoline sulphur content has already been reduced this year, with 30 ppm sulphur mandated at the refinery gate since 1 January. With the passing of the Energy Bill in July last year, MTBE (an oxygenate additive used in reformulated gasoline) is to be phased out of the gasoline pool due to water contamination issues and the lifting of liability protection in May this year. As a consequence, several pipeline operators will stop shipments of MTBE blended material as early as April. Refiners will produce an MTBE free version (RBOB) which will be blended with ethanol at the point of delivery. The gasoline futures contract on the NYMEX still calls for physical delivery of MTBE

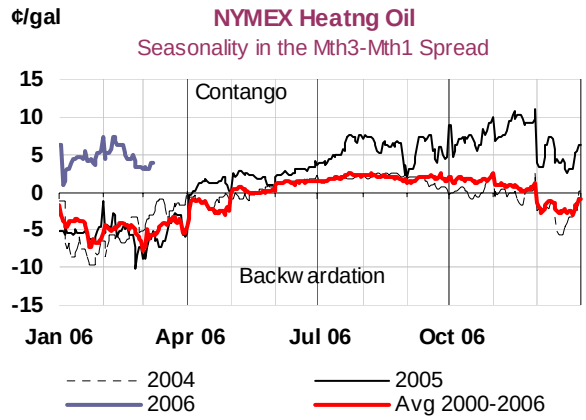
reformulated gasoline (RFG). The RFG front month contract in February (March delivery of winter quality material) fell sharply, turning the gasoline crack negative. Heavy selling of the March contract was driven by a strong seasonal impetus, the change-over from high RVP winter material to low RVP summer material. One can expect that refiners sold on the physical market to clear tanks ahead of a heavy turnaround season. At the same time, buy-side hedges on the RFG futures contract were less likely to take physical delivery in this context. The phase out of MTBE this year can then be therefore viewed as amplifying a decline rather than being the main driving factor.

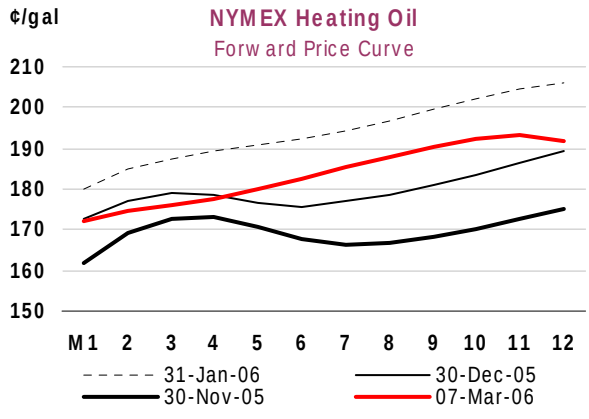




With the switchover from March to April as the front-month contract, NYMEX gasoline prices rose and cracks have picked up again. NYMEX is expected to de-list the RFG contract by year-end and no delivery for 2007 is listed, reducing the number of forward contracts out to 10 months. Net speculative length has come down significantly. However, as the RFG contract will be replaced by an RBOB contract, then a reduction in long positions makes sense.

While volume in NYMEX's RBOB quote is still small, the pricing of RBOB (see graphs above) has appeared to decouple from RFG, with RFG now trading markedly at a discount. Time spreads however, both in the near and the forward months for the RFG contract do not appear to have been distorted from their usual seasonal patterns, albeit selling in the near month pushed the typical contango between the first and third delivery month above seasonal norms.

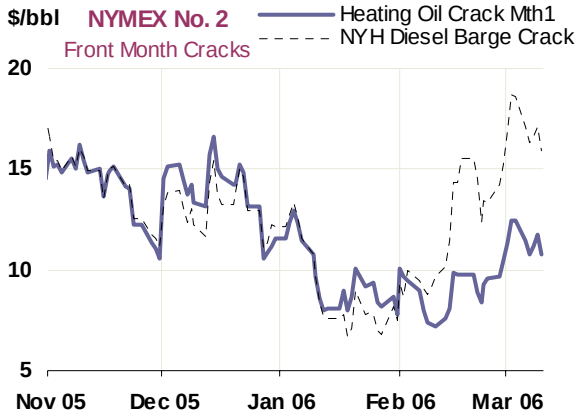




In contrast to the RFG contract, heating oil futures have seen forward price structure appear to move out of sync with historically observed patterns. Heating oil on the NYMEX tends to have a more pronounced seasonal dynamic than the IPE's gasoil contract in relation to final product demand. The forward curve tends to be backwardated in the third quarter to encourage movement out of storage of heating oil to distribution channels ahead of winter deliveries to final customers. Equally, the spread in the near months in the first quarter is also typically in backwardation to encourage movements out of storage to meet peak winter demand.

This year, the forward curve and the near month spread appear to have stepped out of their usual seasonal pattern. Arguably, the high level of heating oil stocks in the US (particularly in the main consuming Northeast area) has had a depressing effect on the near-month contract relative to future contracts. This could contribute to a 'flattening' of the curve, smoothing out the usual backwardation in the third quarter and keeping the first to third month spread in contango. But there is another factor to consider. This year diesel is to see a transition toward a lower-sulphur specification, at below 15 ppm.

New low-sulphur diesel (ULSD) is mandated at refineries by 1 June. Terminal and retail deadlines to meet ULSD come into effect in mid-October. While it would appear that at the refinery level, a large segment of the industry is ready to supply the product on specification, contamination issues during transport are at the forefront of concerns.



Pipeline shipments would need to be carefully separated in order not to pick up sulphur from previous transportation of a product with higher sulphur content (such as jet fuel). Some pipeline operators are indicating that they will only accept significantly lower-sulphur diesel than mandated in order to ensure a product deliverable on specification.

As such, perception of a potential for tightness in diesel (which is hedged against NYMEX's heating oil contract) as the mandated standards come into effect can partly explain upward pressure on forward values of the curve. As can be seen above, diesel and heating oil cracks generally tend to track each other. However, since the end of January, diesel has been posting an increasingly growing premium, that is not necessarily solely attributable to the underlying strength of the US economy.

Crude Oil Prices in February

Benchmark Crudes

Trends in the price of light-sweet crude benchmarks reflected ample Atlantic Basin crude supplies. Cash WTI prices recorded on average a steeper decline than those for Dated Brent. The weakness in physical WTI prices in February (for barrels delivered in March) coincides with the period where refinery capacity offline in the US due to maintenance reaches its peak. In early March, refinery utilisation rates in the US held at 83% of capacity while nation-wide crude inventories were trending around 10% above their year-ago position.

WTI's premium over Brent narrowed markedly in February, moving into a discount of $0.66 /bbl by 22 February. WTI subsequently regained its premium in early March. The narrowing of this spread restricted transatlantic spot sales of Brent related crudes loading in late March and in April.

Crude supplies in Europe were also relatively ample. Brent in the cash market saw a deepening contango between dated and forward prices through February. Weakness in prompt values occurred despite reduced Russian volumes (due to extreme temperatures affecting delivery logistics), outages in the North Sea and relatively light European refinery maintenance this season. The forward price structure was in stark contrast to that observed in the December and early January period when price spreads were relatively flat.

European hydroskimming margins in January and, to a lesser extent in February, for light sweet and medium sour grades were relatively weak. This likely curtailed incremental crude demand initially generated in the aftermath of hurricanes on the US Gulf Coast last autumn when product cracks surged. The combination of ample supplies and softer incremental crude demand supported a smaller differential between Brent and the Middle East and Asian marker Dubai.

The spread between Brent crude (assessed in Asia) and Dubai swap prices fell on average in February by $1.03 /bbl. Brent's premium fell from $5.13 /bbl to $4.10 /bbl, narrowing on a daily basis to a low of $3.46 /bbl on 23 February. This allowed the movement of some of Europe's crude surplus east of Suez where refinery runs remained firm. Arbitrage shipments of North Sea, Urals and West African crude loading in March were reported over the period. At the time of writing, these were estimated at between 12 and 16 mb for Russian, North Sea and Algerian crude headed to Asian markets for delivery in April and May, while volumes of West African were reported to be at record highs.

Spot Crude Oil Prices and Differentials

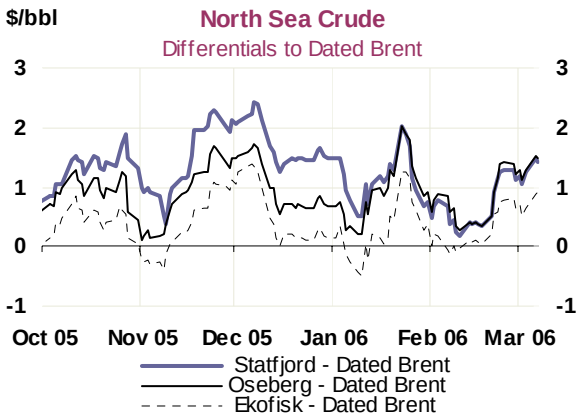
(monthly and weekly averages, $/bbl)

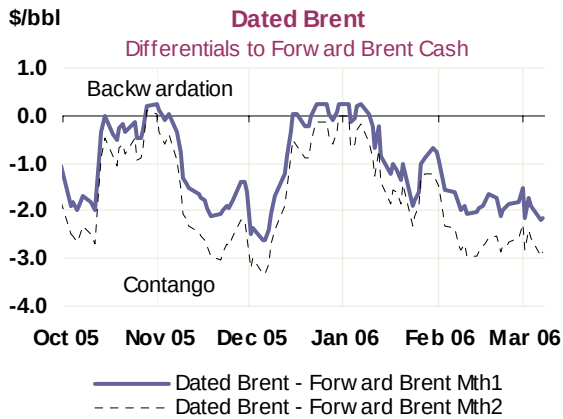
	Dec	Jan	Feb	Feb-Jan Avg Change	%	Week Commencing: 06 Feb	13 Feb	20 Feb	27 Feb	06 Mar
Crudes										
Dated Brent	56.91	63.05	60.12	-2.93	-4.6	61.15	57.95	59.39	60.93	59.76
Brent (Asia) Mth1 adjusted	57.87	63.71	61.99	-1.72	-2.7	63.23	59.98	60.96	62.95	62.64
WTI (Cushing) Mth1 adjusted	59.41	65.46	61.57	-3.89	-5.9	63.01	59.35	59.84	62.26	60.82
Urals (Mediterranean)	54.53	59.57	57.06	-2.52	-4.2	57.34	55.44	56.95	58.49	56.79
Urals (Northwest Europe)	53.44	59.48	57.08	-2.40	-4.0	57.99	54.78	56.94	57.77	56.55
Bonny Light	57.87	64.04	62.12	-1.92	-3.0	63.17	60.13	61.62	62.78	61.94
Dubai Mth1 adjusted	53.20	58.44	57.61	-0.84	-1.4	58.65	55.91	56.93	58.18	57.52
Dubai Swaps Mth1 adjusted	53.44	58.58	57.89	-0.69	-1.2	58.89	56.13	57.28	58.85	58.24
Tapis (Dated)	62.02	69.20	66.74	-2.46	-3.6	68.29	64.78	65.22	66.68	66.05
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	2.50	2.42	1.45	-0.97		1.87	1.40	0.44	1.33	1.06
Urals (Mediterranean)	-2.38	-3.47	-3.07	0.41		-3.80	-2.51	-2.45	-2.44	-2.97
Urals (Northwest Europe)	-3.47	-3.57	-3.04	0.53		-3.15	-3.17	-2.45	-3.16	-3.22
Bonny Light	0.96	0.99	2.00	1.00		2.03	2.18	2.23	1.85	2.17
Dubai Mth1 adjusted - Dated Brent	-3.71	-4.61	-2.52	2.09		-2.50	-2.03	-2.47	-2.74	-2.24
Dubai Swaps - Brent Asia	-4.43	-5.13	-4.10	1.03		-4.34	-3.85	-3.68	-4.10	-4.40
Tapis (Dated)	5.11	6.15	6.62	0.47		7.15	6.83	5.82	5.75	6.29
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-0.58	-0.50	-0.80	-0.31		-0.83	-0.90	-0.79	-0.71	-0.67
Forward WTI Cushing Mth1-Mth2 adj.	-0.71	-0.59	-1.26	-0.67		-0.96	-1.43	-1.71	-1.55	-1.78

Europe and West Africa

While the forward physical market for Brent pointed to relatively ample prompt supplies, North Sea grades managed to maintain premiums against a falling price for the benchmark in February. The differentials rose notably in the second half of the month to peak, in the case of Oseberg and Statfjord, to about $1.50/bbl.

The first half of the month, however, saw an easing in premiums as cracking margins on light-sweet crude were relatively weak, and US interest was thin in view of closed arbitrage and lower refiner demand due to maintenance. North Sea players sought as a consequence to move crude out of the region, aided by a weakening Brent premium over Dubai. In February, various trade reports indicated delivery of March Brent to South Africa and Oseberg to leased storage in Korea.



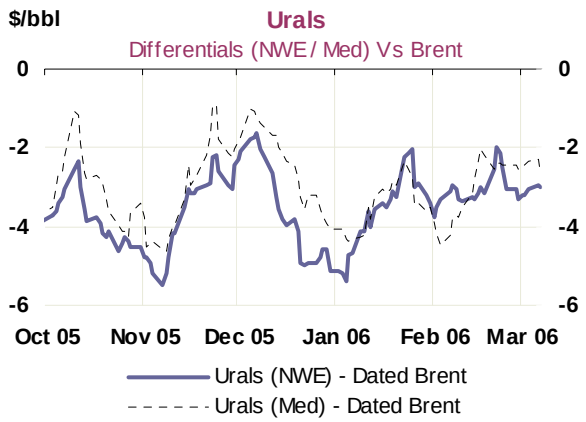


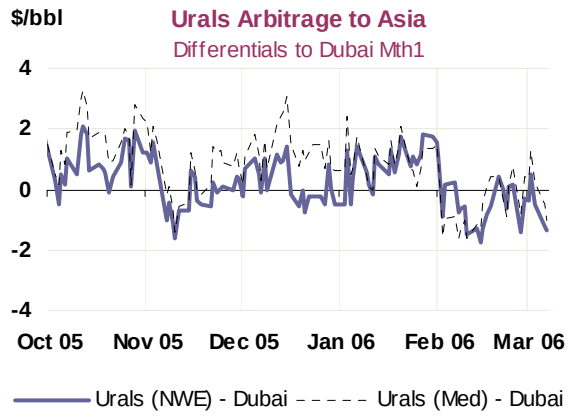
Two supporting factors contributed to the rise in North Sea differentials in the second half of February. The Norwegian sector saw staggered outages related to gas flaring equipment problems at various fields starting with the Visund field, resulting in overall lower levels of production. There was also higher interest following disruptions to Nigerian crude supplies. Buying interest at end-month was also partly motivated by improving refining margins. However, at the time of writing, price differentials in the Brent forward market continued to suggest abundant prompt supply. CFDs

(swap prices for Brent) for weekly March versus April forward delivery held at a discount. Given expectations for deepening refinery maintenance in Europe, downward pressure on North Sea premiums is likely to be sustained.

Average Urals discounts to Brent improved in February in Northwest Europe and the Mediterranean, moving from $3.50 /bbl to around $3 /bbl. Russian exports, as in January, were impacted by extremely cold temperatures that affected delivery logistics. Production, pipeline and rail exports were all adversely affected as were seaborne exports from the Baltics due to icy conditions.

In addition to lower supplies, Urals differentials to Brent were supported by comparatively stronger cracking margins relative to light-sweet crude. However, weaker Brent values over the month put Urals at sufficient discount to Dubai to open arbitrage options to Asia. Incremental hydroskimming demand at mid-month may have also contributed to narrower differentials as European fuel oil prices firmed and fuel oil cracks against Urals improved. The narrowing of the price spread to Brent was confined to the first half of the month, thereafter Mediterranean values held steady, while those in Northwest Europe fell back on higher supplies with the return of the Butinge terminal in Lithuania.



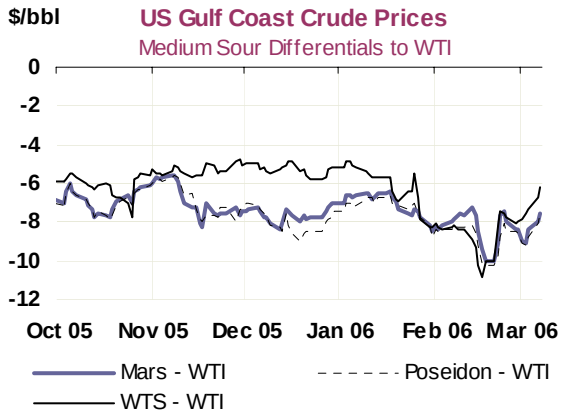


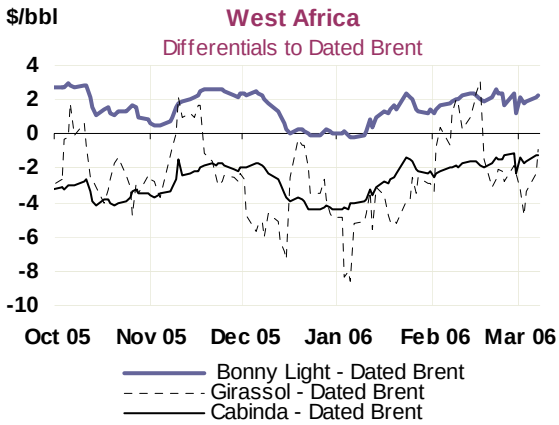
The March programme for Urals suggests higher crude volumes. Higher exports in particular are expected from Primorsk in the Black Sea. While further arbitrage to Asia could support differentials to Brent, refinery maintenance (though relatively light this year) is expected to get underway both in the Mediterranean and Northwest Europe. As such, reduced regional crude demand can be expected to limit further narrowing of the spreads against Brent.

Differentials for Nigerian light-sweet crude remained relatively steady against Brent through February. Disruptions to Nigerian Forcados and EA supplies as a result of militant activity in the southern delta region kept premiums above $2.00 /bbl for most of February. Given uncertainty around potential future supply interruptions, buying interest in alternative grades emerged and Algerian Saharan Blend, as in January, was an attractive substitute for Asian customers.

The weaker Brent/Dubai spread also supported sales of West African crude east. Trade estimates indicate that volumes loading in March for Asian destinations would reach 1.7 mb/d. Crude demand in Asia remained relatively firm on the heels of strong winter product demand. And with scheduled maintenance seasonally peaking only by the end of the second quarter, buying interest remained pronounced, notably for medium-sweet grades from Angola. Both Girassol and Cabinda saw their differentials against Dated Brent strengthen in February. This followed from firm Asian utility demand for low-sulphur fuel oil and strong bunker demand for high-sulphur fuel oil.

Nigeria was reported to schedule around 2.33 mb/d of crude oil exports in March, up from February volumes. On 8 March, Nigeria's Minister of State for Petroleum, Edmund Daukoru, indicated that the country would aim to re-establish about three-quarters of output shut in by militants in the first half of March. Given limited near-term US interest, and in the absence of further supply outages, this would push differentials for Nigerian light-sweet crude against Brent lower. At the time of writing, quotes for Bonny Light and Qua Iboe had fallen to less than $1.00/bbl above Brent.



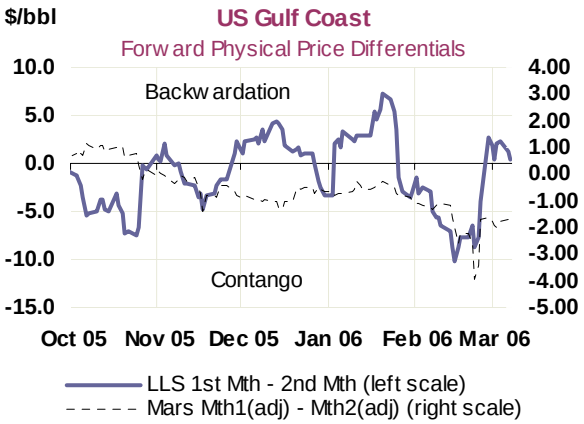


The Americas

Though a sizable amount of Gulf of Mexico production remains shut down as a result of hurricanes last autumn (with prospective recovery looking more protracted), lower crude demand and relatively high crude stocks shaped US crude price differentials against WTI during February. Ample prompt availability pushed the forward prices in physical markets for light-sweet LLS and medium-sour Mars crude into deep contangos. However, the forward structure between April and May saw LLS crude flip into backwardation while the contango for Mars settled slightly weaker.

Cash prices, for delivery of crude in March (the expected peak of US refinery maintenance) saw wide discounts for US medium sour crudes. Deepwater Mars on the Gulf Coast fell to under $10 /bbl against WTI as did West Texas Sour. The weakness in these grades also came with increased supplies of Canadian crude both into the Mid-continent and the Gulf Coast.

In contrast, light-sweet crude LLS developed a premium to WTI of up to $3.58 /bbl in the aftermath of a disruption to Nigerian supplies. More generally, with transatlantic arbitrage closing due to a weakening WTI/Brent spread, and WTI values moving into deeper discount to light Nigerian grades like Bonny Light, interest turned to domestic crudes, keeping LLS's premium to WTI stable at above $1 /bbl.

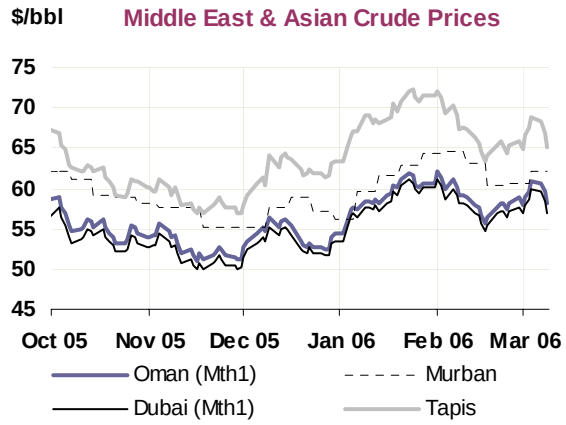


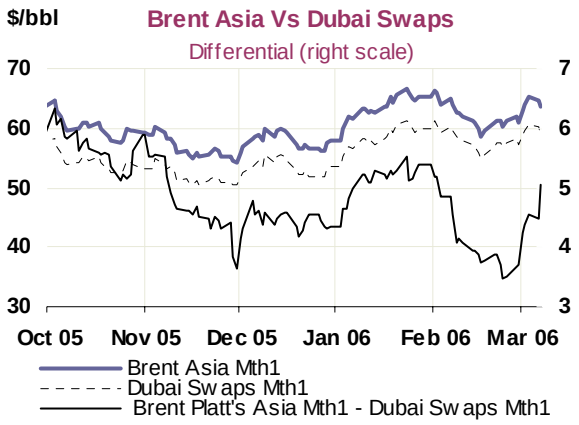
Discounts of heavy Maya crude were relatively unchanged on an end-month basis at $18 /bbl below WTI. However, the path of the differential over the month saw some significant movement, narrowing markedly by mid-month to about $10 /bbl before widening for the remainder of February. Differentials in early March began to narrow again; this likely reflected higher demand due to the return of a number of coking units (these are the units typically employed to process this grade of crude) in April and May after maintenance.

Middle East and Asia

On average, Dubai and Oman values were little changed in February – losing only $0.84 /bbl in the case of Dubai, and $0.64 /bbl for Oman. This compared to a decline of $2.93 for Dated Brent and $1.72 /bbl for Brent quoted in Asia. Values for medium sour Oman and Dubai, though dipping mid-month, were supported by firming fuel oil prices in Asia. Singapore quotes for high-sulphur 180cst and 380cst material were up on average by close to 6%.

Crude demand in Northern Asia remained firm to meet product demand generated by colder than normal temperatures in January and part of February. Seasonal refinery maintenance in Asia in general runs from April to July and trade estimates indicate that offline capacity in Asia during the second quarter could reach 1.35 mb/d. Asian turnarounds tend to peak closer to the end of the second quarter. This suggests that further support for Dubai and Oman can only be short-lived before interest falls to a trough for May and June delivery barrels.





With the end of the winter season in sight and warmer temperatures in the second half of February, demand for kerosene, used as heating oil, lessened. This led to downward pressure on Middle Eastern and Asian crudes, particularly those with greater distillate content. Further downward pressure on these grades came with the expected arrival from April onwards of high volumes of arbitraged Atlantic Basin crude. As such, assessed weekly values for Abu Dhabi's Murban crude fell in the second half of February. Also, Oman and Abu Dhabi made retro-active reductions to February official selling prices and Saudi Arabia cut its price formula to Asian customer for April barrels.

Light-sweet crudes such as Malaysian Tapis were to an extent also impacted by the seasonal slowdown in kerosene demand. Tapis prices came off heavily in the first half of February before recovering some lost by end-month. Tapis's typical premium relative to medium grades such as Indonesian Minas was on average lower, but stable over February. Weakness in Tapis prices also followed from the return of Northwest Shelf production in Australia, notably of comparable Cossack crude which was affected earlier in January by weather outages. Tapis values resumed higher in the second half of February, receiving support from improving cracks of low-sulphur waxy residue (LSWR) as demand for low-sulphur fuel oil by Asian utilities remained relatively firm. Sentiment on Asian sweet grades was bearish in the second week of March; Cossack crude for April lifting was quoted below Tapis after initial offers at a premium. Similarly April Tapis traded down from values realised for March. The downward sentiment was also supported as Indonesia was reported to be cutting spot purchases of light sweet grades in favour of expanding its term deliveries.

Delivered Crude Prices in December

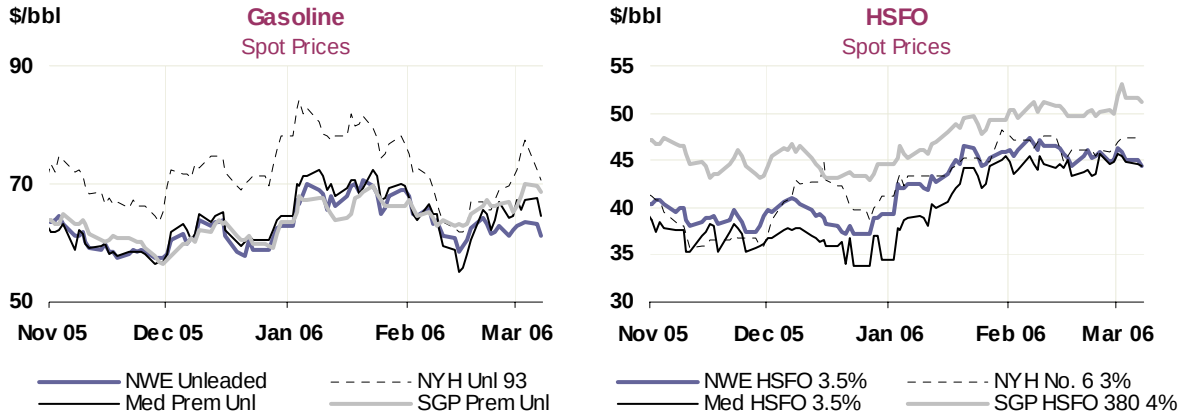
The average IEA price for crude imports on CIF delivery terms fell by $0.29 /bbl in December to $53.41 /bbl. IEA North American countries paid $51.12/bbl in December, compared to $52.27/bbl in November, while IEA Pacific countries paid $54.30 in December, a monthly decline of $1.08. Conversely, IEA European countries saw cost rise to $55.10 /bbl in December, over $1 /bbl more than the previous month. IEA countries paid over $15/bbl more than December last year for imported crude.

Product Prices in February

Spot Product Prices

Gasoline dominated product prices movements in the Atlantic Basin in February, falling heavily in the US which in turn dragged European prices lower. In contrast, average fuel oil prices firmed over the period, holding on to gains made in January. Unleaded gasoline prices for barges in New York Harbour fell by 13% on average in February on mounting supplies. Heavy refinery selling to turnover winter quality material and uncertainties over the switchover to MTBE free product this year also contributed.

The decline in US gasoline prices effectively closed spot arbitrage possibilities to bring gasoline from Europe. Despite base-load term shipments to the US and deliveries to Nigeria and the east Mediterranean, European gasoline prices tumbled with unleaded gasoline falling on average in February by 8%. Gasoline prices in Singapore saw more modest declines, prices receiving some support due to reduced supplies by the major regional exporters.



Fuel oil cracks against reference crude prices and absolute prices generally bucked trends seen in light products across markets. These broadly increased, with the largest percentage gains seen in the Mediterranean and in Singapore. The increases in fuel oil prices followed from either reduced supplies and/or firm utility demand depending on the region surveyed. The US saw generally weaker increments on average for low-sulphur fuel oil. Incremental utility demand in the US, as a result of fuel switching away from natural gas, weakened in February. Storage of natural gas far exceeded expectations and is projected to remain quite high through the remainder of the heating season. The front month Henry Hub futures contract on the NYMEX fell below $7 /mmBTU in the second half of February, after averaging $9.22 /mmBTU in January and $13.37 /mmBTU in December.

Spot Product Prices

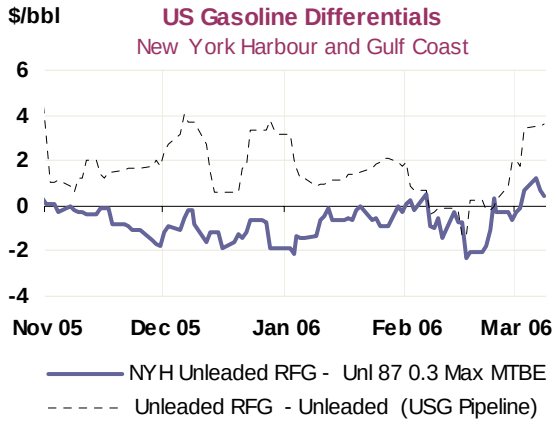
(monthly and weekly averages, $/bbl)

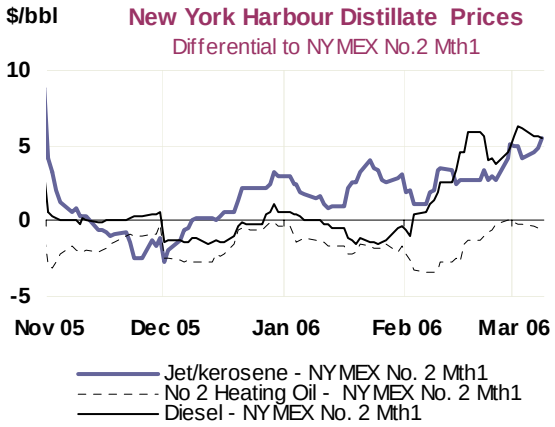
	Dec	Jan	Feb	Feb-Jan		Week Commencing:					Dec	Jan	Feb
				Change	%	06 Feb	13 Feb	20 Feb	27 Feb	06 Mar			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	62.14	69.35	63.78	-5.57	-8.0	64.50	61.44	63.96	63.68	64.44	5.23	6.30	3.66
Unleaded	61.10	68.15	62.71	-5.44	-8.0	63.45	60.42	62.83	62.55	63.41	4.19	5.10	2.59
Naphtha	54.86	61.85	57.88	-3.97	-6.4	58.53	56.31	58.26	57.83	56.95	-2.04	-1.20	-2.24
Jet/Kerosene	70.19	76.37	74.51	-1.86	-2.4	74.81	73.42	74.11	76.43	74.72	13.28	13.32	14.39
Gasoil .2%	67.78	72.06	71.12	-0.94	-1.3	70.90	69.56	71.44	73.36	72.57	10.87	9.01	11.00
LSFO 1%	43.41	46.98	48.90	1.92	4.1	49.72	47.86	49.10	48.55	46.52	-13.50	-16.07	-11.22
HSFO 3.5%	39.14	44.01	45.90	1.90	4.3	46.79	45.64	45.67	45.43	44.24	-17.77	-19.04	-14.22
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm *	60.71	67.64	61.18	-6.46	-9.6	61.81	56.20	63.49	65.08	65.17	6.18	8.07	4.13
Naphtha	53.34	58.83	56.03	-2.80	-4.8	56.15	54.48	57.10	56.87	55.97	-1.19	-0.74	-1.02
Jet Aviation fuel	68.51	74.03	73.88	-0.15	-0.2	74.36	73.01	73.76	75.21	74.18	13.98	14.45	16.83
Gasoil .2%	68.16	71.99	70.17	-1.82	-2.5	69.89	67.92	70.57	73.96	72.98	13.63	12.41	13.11
LSFO 1%	45.27	49.88	53.13	3.24	6.5	52.94	53.02	54.19	51.85	49.38	-9.26	-9.69	-3.93
HSFO 3.5%	36.51	41.30	44.38	3.07	7.4	44.84	44.27	44.02	45.06	44.61	-18.02	-18.27	-12.68
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	72.35	79.33	67.41	-11.92	-15.0	67.34	63.17	66.93	73.18	72.15	12.94	13.87	5.84
Unleaded	67.19	72.82	63.15	-9.66	-13.3	62.48	60.36	63.51	67.68	68.87	7.78	7.35	1.58
Jet/Kerosene	74.01	77.42	73.56	-3.85	-5.0	73.16	71.16	73.38	78.24	77.46	14.61	11.95	11.99
No. 2 (Heating Oil)	71.66	73.41	68.86	-4.55	-6.2	67.54	66.23	69.77	73.49	71.83	12.26	7.94	7.29
LSFO 1%	48.81	47.63	48.14	0.52	1.1	48.93	46.98	47.56	48.41	47.85	-10.59	-17.84	-13.43
No. 6 3%	41.22	44.39	46.49	2.10	4.7	47.03	46.05	45.94	46.80	46.87	-18.19	-21.07	-15.08
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	61.01	66.78	65.02	-1.76	-2.6	63.96	63.46	66.61	67.40	68.24	7.81	8.34	7.42
Naphtha	53.78	58.26	56.65	-1.61	-2.8	56.51	55.49	57.37	58.32	58.88	0.58	-0.18	-0.96
Jet/Kerosene	70.37	77.02	74.96	-2.06	-2.7	77.15	73.41	73.96	75.11	74.40	17.17	18.58	17.35
Gasoil .5%	63.82	69.37	66.08	-3.28	-4.7	65.32	64.77	67.14	70.18	70.97	10.62	10.93	8.48
LSWR Cracked	47.81	53.63	52.08	-1.55	-2.9	53.79	50.65	50.33	51.31	50.23	-5.38	-4.81	-5.53
HSFO 180 CST	44.74	47.69	50.43	2.74	5.7	50.83	50.11	50.52	51.98	51.79	-8.46	-10.75	-7.17
HSFO 380 CST 4%	44.53	47.51	50.26	2.74	5.8	50.76	50.19	49.99	51.38	50.97	-8.67	-10.93	-7.35

* From January 2005 Premium Unleaded 50 ppm

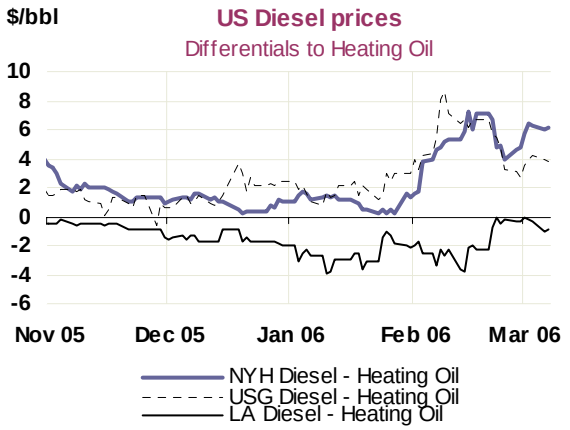
The Americas

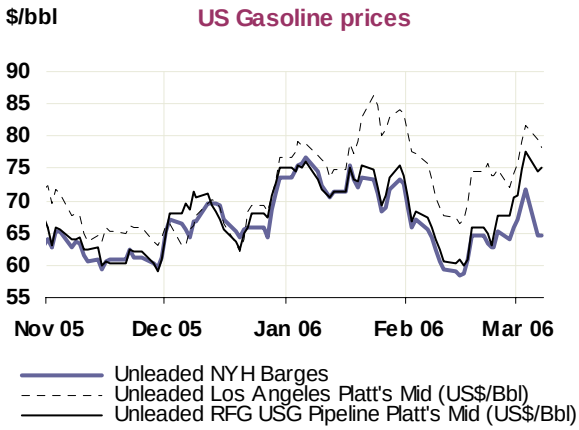
Heating oil prices fell on average in New York Harbour during February, declining $4.55 /bbl to $68.86 /bbl, despite the return of normal winter temperatures. Higher distillate demand supported heating oil cracks, but ultimately, ample supply availabilities took prices lower. Imports of distillates were high over the month, helping to sustain heating oil inventories at comfortable levels in the main consuming Northeast region after counter seasonal builds in January. Weakness in gasoil, notably on the Gulf Coast was reported to have reversed arbitrage flows of the product to Europe. Recent weather forecasts are also pointing to warmer temperatures in the short term, putting further downward pressure on cash prices. The decline in heating oil prices did not drive all other distillate values lower in the same proportion. In New York Harbour, jet/kerosene lost $3.85 /bbl but diesel prices declined by only $0.75 /bbl. Relative weakness in heating oil saw differentials at a discount to the NYMEX heating oil contract over February while both kerosene and diesel increased their premiums.





Diesel saw its premium relative to heating oil increase in February. The shift to ULSD (discussed above) can be viewed as a strong underlying factor. With the possibility of contamination during shipment, areas such as the Midwest and the Northeast may then become harder to service by pipeline. In absence of a significant strengthening of the US economy, perceived potential tightness when lower-sulphur mandates come into effect helped push the average spread between the two products from $1.02 /bbl to $4.82 /bbl on average in New York Harbour. While refineries need to comply with mandates by 1 June, the ULSD program requires that at least 80 percent of on-highway diesel fuel being supplied must have no more than 15 ppm sulphur content at retail in October.

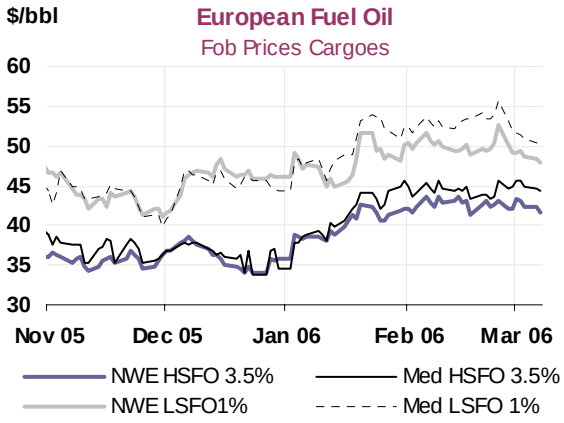


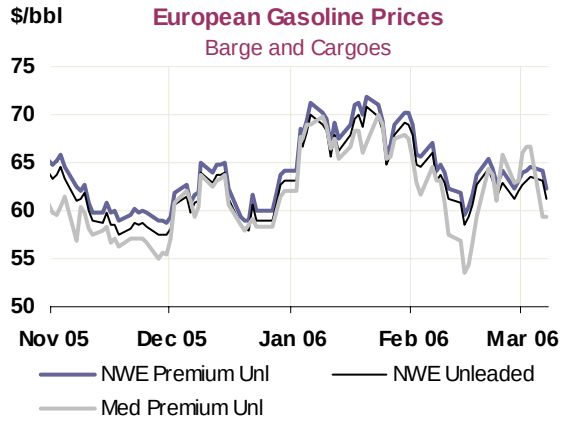


Gasoline prices lead declines in US product prices. High inventories and imports drove softer prompt fundamentals while the market transitioned from winter to summer quality material. Domestic gasoline production had earlier received support from mild weather in January, allowing refiners to step back from a max-distillate mode, leaving yields on gasoline at close to 59% until early February. Low-sulphur fuel oil prices only posted moderate gains and weakness of the product on the Gulf Coast appeared to open arbitrage opportunities to the Mediterranean. High-sulphur prices generally rose faster than low-sulphur values on East and Gulf Coast, as incremental utility demand eased on lower natural gas prices while high-sulphur prices were reportedly buttressed by demand into the Caribbean.

Europe

Gasoline prices in Europe fell heavily in line with declines seen in the US. Regional demand trends continued to show year-on-year contraction, and outside of term shipments, spot arbitrage to the US closed in February. Though some support to gasoline prices was afforded by deliveries to Nigeria, the east Mediterranean and Iran, gasoline prices were down 8 to 10% on average during the month in Northwest Europe and the Mediterranean. At the same time, forward swap prices for barge gasoline steepened, encouraging a seasonal build of inventory for delivery to the US during the summer driving season.

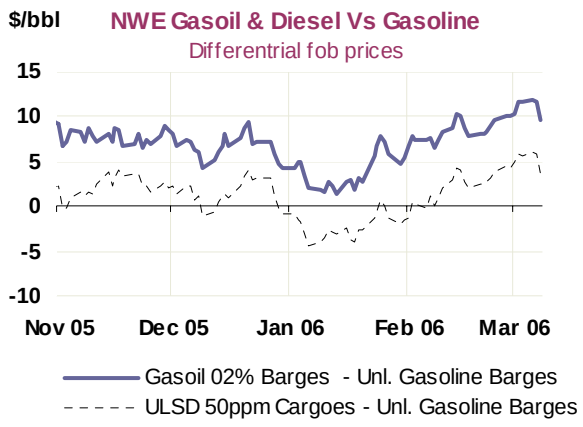


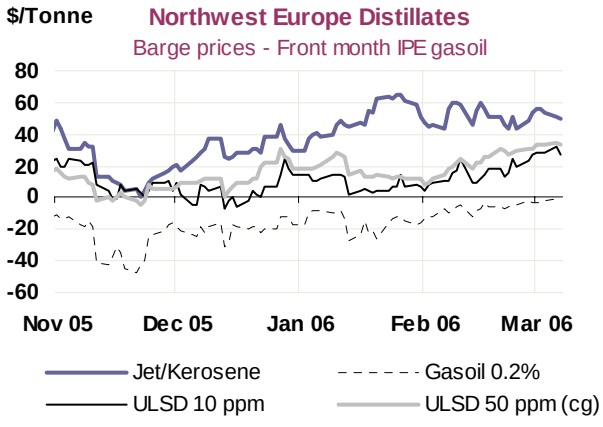


High-sulphur fuel oil prices were generally up, increasing on lower Baltic supplies in February as higher Russian domestic demand due to cold weather curtailed availabilities. Russian fuel oil delivered from the Baltic was down on a monthly basis by around 250 kb/d. Heading into February, fuel oil in independent storage in Northwest Europe was also tightened by cargoes leaving to Asia. The strength in fuel oil during February is likely to let up in March with FSU export flows seen rising. Low-sulphur values maintained relatively high levels. Prices, notably in the Mediterranean, were taken above $55 /bbl, due to utility demand from Italy where natural gas was in shorter supply.

Gasoil prices on average were slightly lower, but declines in Northwest Europe proved more modest than those observed in New York Harbour, falling respectively just over 1% and 2% in Northwest Europe and the Mediterranean. FSU gasoil exports were slightly down in February with about an even decline seen in the Baltics and the Black Sea. Differentials of gasoil to front month IPE gasoil were firmer as colder weather in Europe supported heating demand after a relatively weak December-January period. Barge flows out of ARA into traditional heating oil markets (Germany, France, Switzerland and Benelux) were also reportedly picking up in the second half of the month.

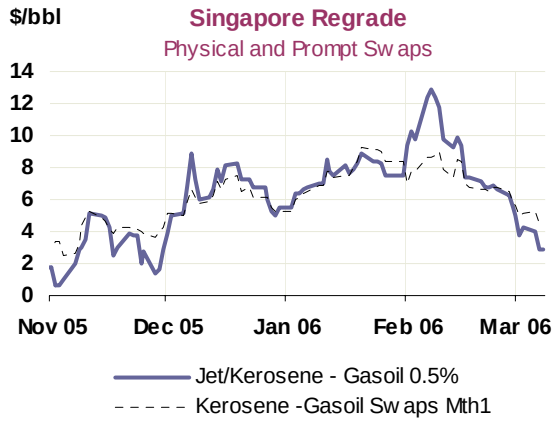
Higher heating demand translated into a growing premium for heating oil relative to gasoline. Diesel prices also strengthened in tandem and emerging diesel strength relative to heating oil may in part have been supported by outages at refineries in France. Spot jet prices in the Mediterranean were relatively steady on average over February and slightly down in Northwest Europe. Forward swaps maintained a high premium, attracting Middle Eastern supplies and encouraging storage.

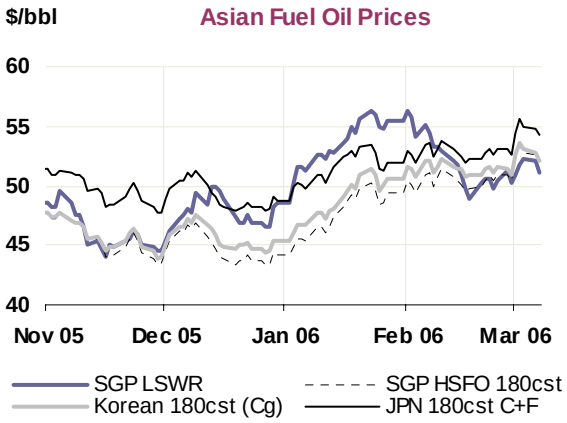




Singapore

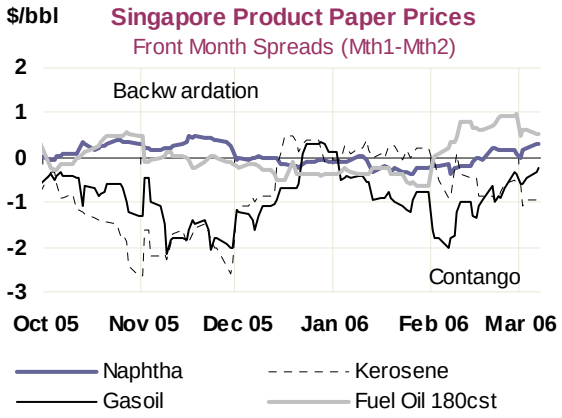
Product prices generally fell in February with the notable exception of high-sulphur fuel oil. The largest losses came in 0.5% gasoil which declined $3.28 /bbl on average while both 180cst and 380cst high-sulphur fuel oil were up by $2.74 /bbl. Kerosene, which led gains in product prices in January, eased back by around $2 /bbl in February. Winter temperatures moved away from January's extremes to more seasonal patterns, allowing prompt availability to increase. Inventories in Japan, where kerosene is used as a heating fuel, fell to seasonal lows; however refiners there appeared to be covered for the remainder of the heating season, reducing their need to return to the spot market.





In early March, opportunities to export surplus kerosene to the US West Coast appeared to be limited as inventories there were at fairly ample levels. With growing prompt supply, the physical forward market for kerosene moved into contango. Despite the decline in gasoil prices, the fall in kerosene weakened the re-grade (or the relative profitability of jet over gasoil) to levels seen last November. Part of the weakness in gasoil prices was likely driven by China's reluctance to import diesel and Indonesia's (a main regional importer) absence from February bidding. However, Indonesia was reported with renewed interest mid-February for March barrels. Forward prices for gasoil in Singapore remained in contango; the spread was narrowing over the course of February, reportedly on a tightening of low-sulphur supplies in the region.

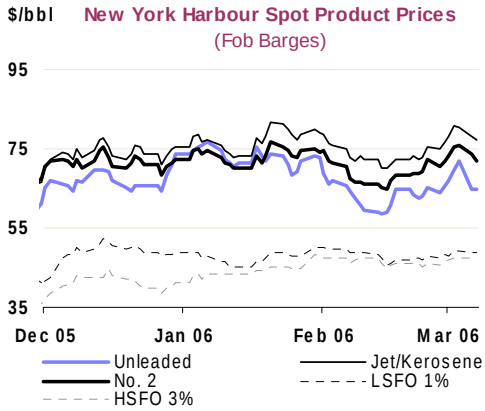
High-sulphur fuel oil prices rose in February on strong bunker demand and reduced supplies from Korean and Middle Eastern refiners. With reduced arrivals of Western supplies in March, high-sulphur prices are expected to remain firm. About 1.5 to 1.6 million tonnes of fuel oil have been fixed to Asia in March, over a third lower than in February, and below last year's average. In light products, an average fall in gasoline prices in February masked a steadily increasing trend over the month as regional exporters reduced supplies. Gasoline could be supported at current level as Chinese exports are expected to fall by a third in March to their lowest level since late last year

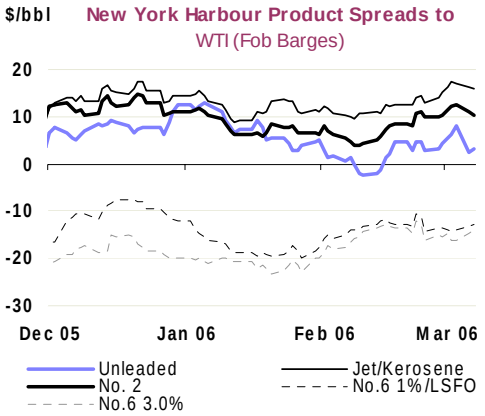


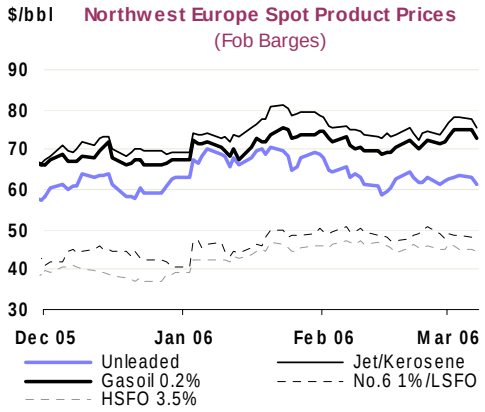
End-User Product Prices in February

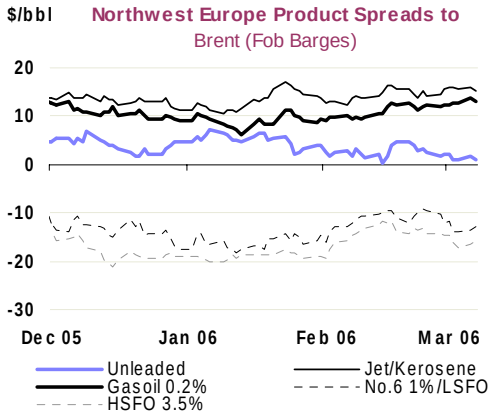
Falling spot prices for gasoline in February were reflected at the retail level in Canada, Spain, Italy and France. In contrast, average monthly US prices remained even from January. Canadian consumers paid about 8% less per litre in ex-tax, US dollar terms and 4% less per litre for automotive diesel prices. Diesel consumers in OECD countries including USA and most of Europe, however, paid slightly more in February. Outside tax and based on the US dollar, Japanese heating oil consumers paid 3.8% more for their fuel in February month-on-month following the effects of a cold winter. Lesser price rises were seen for heating oil across most of consumer Europe, excepting UK and Italy, where there were slight decreases. Monthly Low Sulphur Fuel Oil prices for European industrialists increased by 3-6% and are now between 50 and 80% higher than year-ago levels.

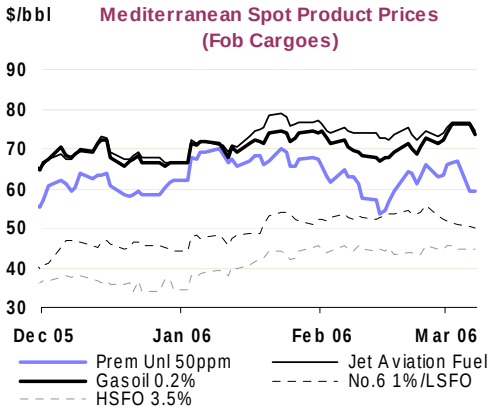
Product Prices and Differentials to Benchmark Crude Oil Prices

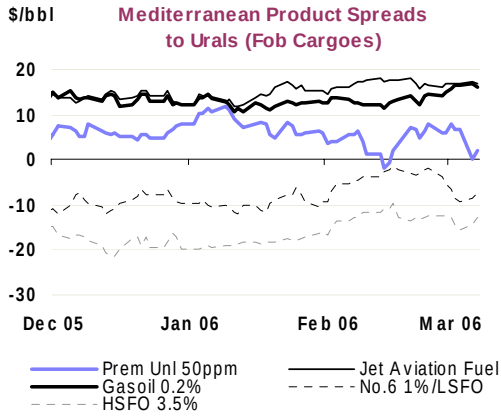


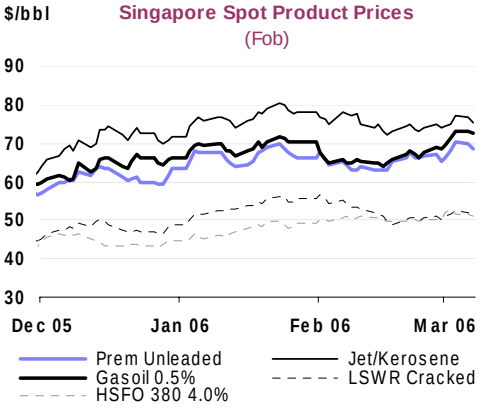


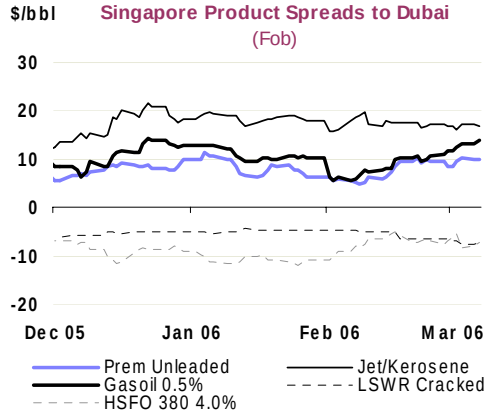










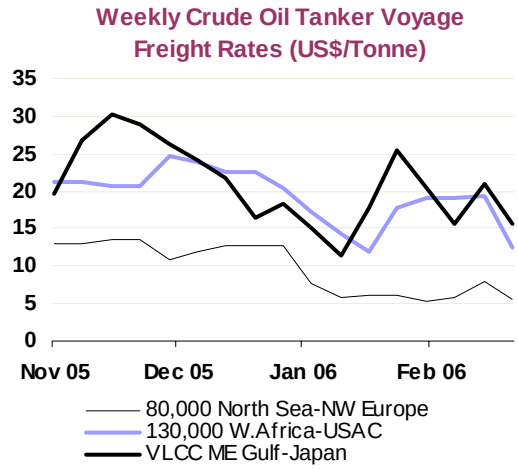


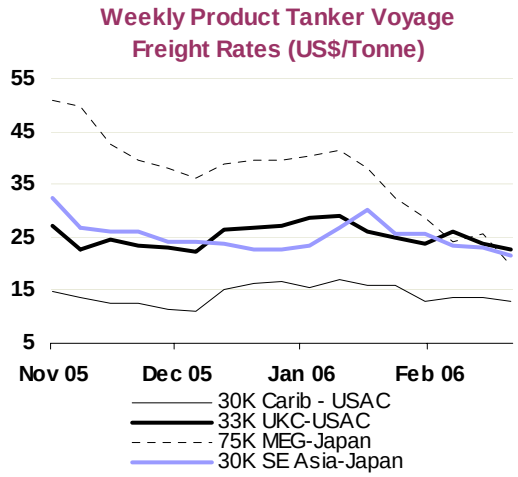
Freight

A mid-February rebound provided only temporary respite to a downward trend in dirty tanker rates which linked late-January peaks to lower early-March levels. Clean product rates declined throughout February, falling to their lowest values for several months.

After a modest spike in late January, dirty spot rates for eastbound Middle Eastern vessels followed a seasonal downward path in February as Asian crude runs began to decline from peak winter levels. Average VLCC rates from Arabian Gulf to Japan started February at nearly $23 /tonne and fell by over $7 /tonne by 10 February. The decrease in rates during February was temporarily interrupted mid-month as Asian charterers sought to secure transportation requirements for Middle Eastern cargoes loading in March. This lifted rates to over $20 /tonne on 17 February. However, by early March, they fell to around $11.40 /tonne, more in line with rates observed ahead of scheduled refinery maintenance.

The price premium of Brent over Dubai narrowed throughout February making Atlantic Basin crude more attractive to Asian markets. Suezmax vessels trading out of West Africa mid-month were in strong demand, with charterers seeking to take advantage of Dubai's relative strength. Though heavy Asian spot buying for March-loading West African crude was reported, this did not appear to impact VLCC rates. The latter experienced temporary strength in the middle of February, similar to that observed in the Arabian Gulf routes, but otherwise subsided from a late-January peak. VLCC rates from West Africa to East Asia declined from $27 /tonne to around $19 /tonne in early March. Disruptions to Nigeria supplies in late February lessened interest due to deliverability uncertainties, with companies looking to source their crude elsewhere.





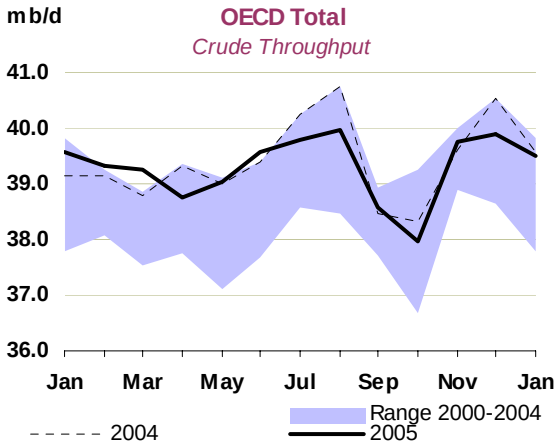
VLCC rates from the Arabian Gulf to the US Gulf fell at a weaker pace than those for Asian destinations. Average spot rates for a VLCC heading from the Arabian Gulf to the US Gulf Coast peaked at over $30 /tonne on 21 February. Tanker sailings data suggest that volumes of Middle Eastern oil heading east, on either spot or term basis, had risen since the start of the year. However, with US refinery maintenance expected to last until May and domestic crude stocks comfortable, incremental crude requirements were reduced. As such, spot charter rates eased to typical seasonal levels in the second half of February.

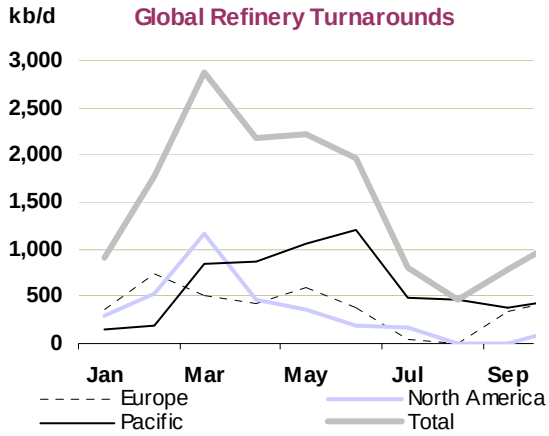
Asian demand for large clean product tankers out of the Arabian Gulf continued to decrease in February in line with a seasonal fall in the region's product demand. At the same time, product supply was reduced with maintenance at Middle Eastern export refineries such as Saudi Arabia's Yanbu facility. Rates for 75,000 tonne clean cargoes travelling from the Arabian Gulf to Japan held at about $23 /tonne at the start of March, the lowest level since last June. Demand for smaller clean product tanker sizes (25-35,000 tonnes) was broadly steady, particularly in Western Markets.

REFINERY ACTIVITY

Summary

- **Full cost refining margins** in February were stronger on average for hydroskimming refineries, however cracking margins generally deteriorated. These changes were driven by stronger fuel oil and diesel cracks and by weaker gasoline cracks. Despite the weak start to the month most margins improved over the course of February, finishing at or near their recent highs.
- **Refining margins** in the US increased for cracking domestic sour grades. Mars cracking margins averaged $2.88/bbl in February, up $2.05/bbl from January. However, coking and light sweet cracking margins were on average weaker due to lower gasoline cracks, which fell around $6/bbl. Light sweet crude margins improved in Asia and Europe, where Brent cracking margins increased $0.26/bbl to average $2.41/bbl, but sour cracking margins were weaker. Dubai hydrocracking margins in Asia declined by $0.90/bbl to -$0.07/bbl on average, the lowest level in almost three years.





- **OECD throughputs** fell in January to 39.5 mb/d from December's revised level of 39.9 mb/d. A five-year high in Pacific throughputs was more than offset by seasonal maintenance and unplanned refinery outages in Europe and North America. OECD refinery maintenance is expected to peak in March, as European and North American refiners exit seasonal programmes. The return of Atlantic Basin refiners will however, be partly offset by increased work in the Pacific.
- **OECD yield data** for December reveal that Japanese kerosene yields, for use as heating oil and jet fuel, increased to 19% of overall output from 16% in November. This was in response to the extremely cold weather that affected the region. Weekly data from the Petroleum Association of Japan suggests that this level of kerosene yield was maintained into January and February.

Refining Margins

Over the course of February hydroskimming margins improved from the weak levels of late January, increasing rapidly over the first half of the month. This recovery was driven by two key factors. Firstly, global fuel oil markets tightened, due to:

- Reduced Russian exports into Europe and Asia, as cold weather boosted domestic consumption and reduced supplies for export
- Refinery turnaround activity in the Middle East further reduced fuel oil exports to Asia.
- Stronger utility demand for low-sulphur fuel oil in Italy and France, as generators switched away from alternative sources of fuel.

Most of these factors are expected to be temporary, suggesting renewed reliance on Asian buyers to balance the fuel oil market in the coming months. Secondly, refinery maintenance activity in Europe and the introduction of tighter US specifications for ultra low-sulphur diesel (mandated for this summer) appear to be supporting diesel premiums, which strengthened in the US and Europe.

Cracking (and coking) margins were less affected by the stronger fuel oil cracks and more influenced by falling gasoline prices. Weakness in gasoline cracks was most pronounced in the US however,

ripple effects, through arbitrage linkages, meant the impact was evident throughout the regions surveyed in this Report. Two factors appear to have undermined gasoline:

- Firstly, US gasoline inventories have reached their highest level since 1999. Where these inventories consist of winter grade gasoline they need to be replaced ahead of seasonal specification changes to summer specification material with lower RVP characteristics.
- Secondly, the replacement of methyl tertiary butyl ether (MTBE) with ethanol was due to occur in early May, following the removal of the US oxygenate requirement. However the timing of this appears to have accelerated, after several key US pipeline companies have decided to ban MTBE ahead of this date.

These factors seem to have undermined gasoline cracks through the first half of February. Market participants appear to have preferred reformulated blendstock for oxygenate blending, in place of reformulated gasoline, as discussed elsewhere in this Report. Concerns about lower gasoline production during the summer months, as a result of phasing out MTBE, suggest gasoline supply could remain tight.

Selected Refining Margins in Major Refining Centres

($/DDI)

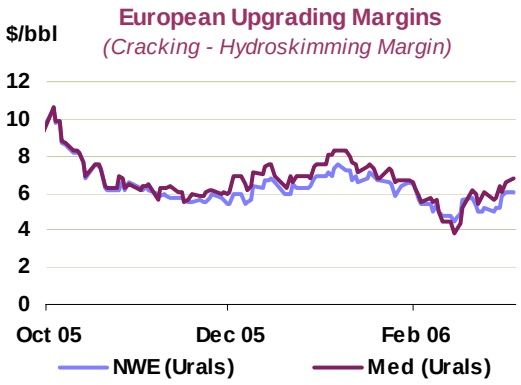
		Monthly Average			Change	Week Ending:				
		Dec 05	Jan 06	Feb 06	Feb 06-Jan 06	03 Feb	10 Feb	17 Feb	24 Feb	03 Mar
NW Europe	Brent (Cracking)	2.20	2.15	2.41	0.26	1.36	1.99	3.69	3.27	2.68
	Urals (Cracking)	4.69	4.34	4.30	-0.04	3.27	4.25	5.87	4.86	4.31
	Brent (Hydroskimming)	-1.32	-2.33	-0.84	1.48	-1.96	-1.04	0.16	0.43	-1.41
	Urals (Hydroskimming)	-1.50	-2.42	-0.88	1.54	-2.14	-0.53	0.26	-0.30	-1.77
Mediterranean	Es Sider (Cracking)	1.82	3.67	3.33	-0.34	3.25	2.46	3.29	5.10	3.49
	Urals (Cracking)	3.10	4.35	3.89	-0.46	4.02	3.31	3.78	5.14	3.77
	Es Sider (Hydroskimming)	-2.12	-0.95	0.49	1.44	0.31	0.27	0.63	1.85	-0.81
	Urals (Hydroskimming)	-3.78	-3.03	-1.45	1.58	-1.50	-1.19	-1.46	-0.90	-2.78
US Gulf Coast	Brent (Cracking)	-1.42	-1.70	-2.76	-1.06	-2.73	-4.99	-0.77	-0.40	2.06
	LLS (Cracking)	2.21	0.92	0.52	-0.40	-0.75	-1.85	2.34	0.59	5.37
	Mars (Cracking)	1.72	0.83	2.88	2.05	1.06	-0.29	6.31	3.33	6.75
	Mars (Coking)	7.58	6.16	7.06	0.90	5.29	3.17	10.77	8.35	12.80
	Maya (Coking)	11.83	12.00	9.35	-2.66	8.29	5.96	11.65	11.14	14.86
US West Coast	ANS (Cracking)	-0.64	2.87	2.95	0.08	1.54	-0.21	5.12	3.78	6.98
	Kern (Cracking)	2.40	4.32	6.58	2.27	4.53	3.92	10.90	10.20	10.73
	Oman (Cracking)	-2.20	1.89	-0.51	-2.40	0.46	-2.98	1.99	1.80	3.85
	Kern (Coking)	5.59	14.20	12.45	-1.75	13.21	7.43	17.29	16.67	20.39
Singapore	Dubai (Hydroskimming)	-2.20	-2.98	-2.63	0.35	-4.52	-2.44	-1.37	-1.67	-1.57
	Tapis (Hydroskimming)	-6.66	-8.40	-7.90	0.49	-10.38	-8.62	-6.54	-6.25	-6.41
	Dubai (Hydrocracking)	1.13	0.83	-0.07	-0.90	-1.73	-0.26	1.20	1.04	1.61
	Tapis (Hydrocracking)	-4.36	-6.14	-6.04	0.10	-8.62	-7.02	-4.30	-4.15	-4.04
China	Cabinda (Hydroskimming)	-3.56	-4.09	-4.44	-0.35	-5.72	-3.59	-4.05	-5.63	-4.60
	Daqing (Hydroskimming)	-3.09	-5.64	-5.56	0.08	-6.60	-5.41	-5.50	-5.18	-5.91
	Dubai (Hydroskimming)	-2.87	-3.52	-3.27	0.25	-5.35	-2.89	-2.08	-2.23	-2.14
	Daqing (Hydrocracking)	0.87	-1.57	-1.60	-0.03	-2.75	-1.70	-1.01	-1.00	-1.77
	Dubai (Hydrocracking)	0.42	0.26	-0.67	-0.93	-2.56	-0.62	0.51	0.51	1.01

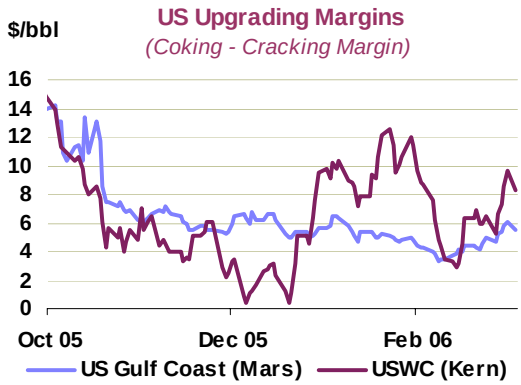
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimized for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability 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 stronger hydroskimming fundamentals and lower gasoline cracks led to weaker upgrading margins. In the US, upgrading margins (coking less cracking) averaged $4.18/bbl for Mars on the Gulf Coast, a decline of $1.15/bbl from January. Similarly, Kern upgrading margins on the West Coast averaged $5.86/bbl, a decline of $4.02/bbl. In Europe, Urals upgrading margins (cracking less

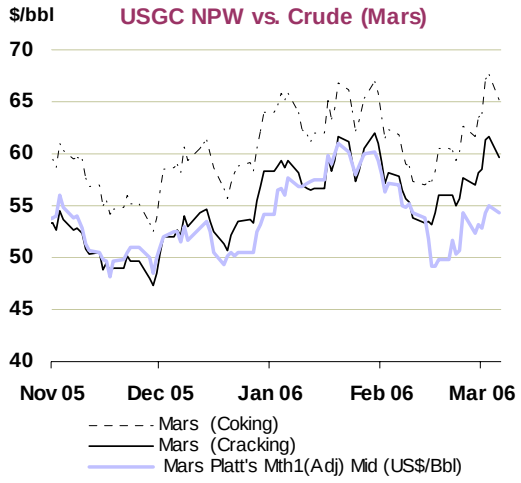
hydroskimming) averaged around $5.25/bbl, while on sweet crude the average was closer to $3/bbl. Heating oil cracks on the US Gulf Coast and in Asia weakened further as Northern Hemisphere winter draws to close and stock levels in the US and Singapore remain high.





OECD North America

US Gulf Coast margins saw mixed fortunes in February. While the weakness in gasoline cracks pressured coking margins, stronger diesel and fuel oil cracks offered some support to cracking. Mars refining margins were stronger as displaced sour crudes from the US West Coast and competition from Canadian sour grades undermined Mars' premium relative to Maya crude. Low-sulphur fuel oil values were boosted by arbitrage opportunities to the Mediterranean, while high-sulphur cracks, though weaker, saw some support from Caribbean utility demand.



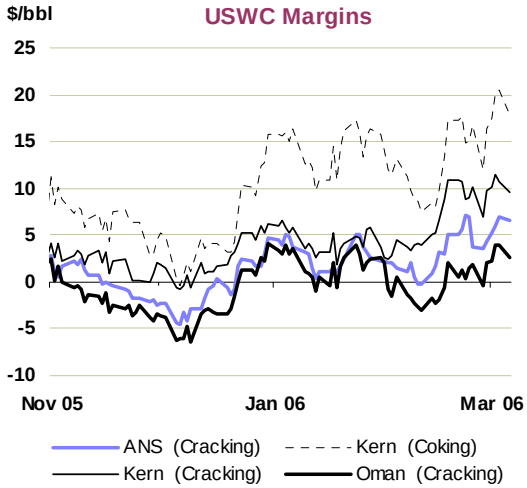
West Coast margins remain amongst the highest of those surveyed in this Report. Cracking margins on domestic sour crudes, were relatively weak during the early part of the month. However, following unplanned refinery downtime at the Torrance refinery in California, margins recovered in the second half of the month. This was a result of tighter product markets and lower crude prices, which encouraged surplus crude to move out of the region, (mainly to the Gulf Coast). Fuel oil cracks reached historical highs during the second half of the month and margins finished the month very strongly.

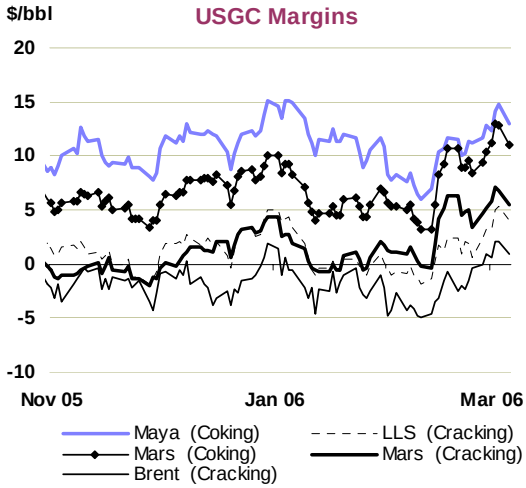
OECD Europe

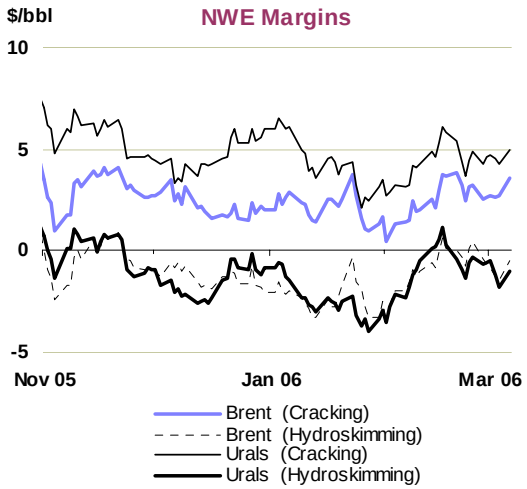
European margins were generally stronger on a hydroskimming basis, while cracking margins fell, with the exception of Brent in Northwest Europe. Mediterranean margins were supported by stronger fuel oil (as already discussed), and diesel values, plus prompt demand for gasoline to move to Africa, which partly offset the impact of weaker US gasoline prices.

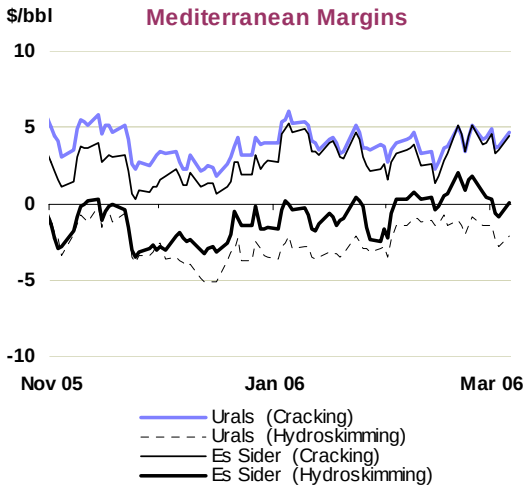
Northwest European margins increased on average for the month, with the exception of Urals cracking. While still the most profitable for the region, averaging $4.30/bbl, Urals cracking was flat versus January. As was the case in the Mediterranean, overall product supply was impacted by turnaround activity in the UK and France, plus unplanned outages affecting Mardyck in France and Leuna in Germany. The stronger fuel oil and diesel cracks lifted hydroskimming margins by around $1.50/bbl, on average but these remain negative, averaging -$0.84/bbl and -$0.88/bbl for Brent and Urals respectively.

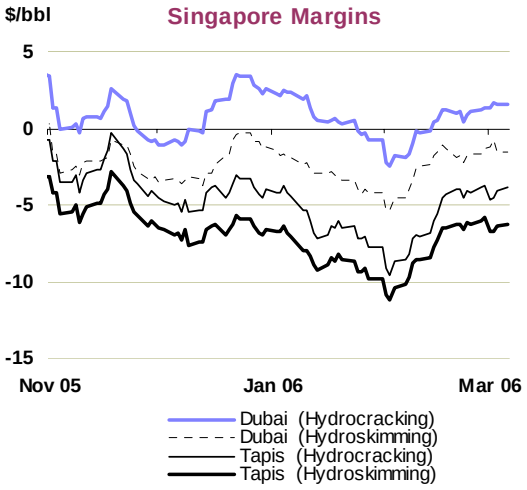
Regional Full-Cost Refining Margins

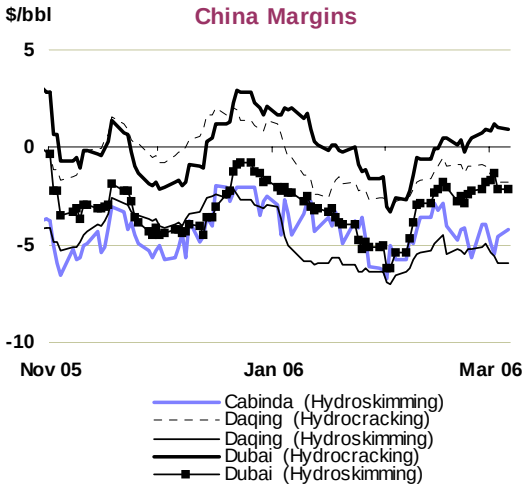












Asia

Asian margins remain near the lowest levels seen in the last three years, despite some improvement from January. Consequently, run cuts were reported in February at Singapore refineries and in Korea for March. The low-sulphur waxy residue crack improved against light sweet crudes on continued demand from Japanese electricity utilities. These look to be holding LSWR stocks flat in the face of strong electricity demand after the recent cold weather and ahead of the Japanese refinery turnaround season which starts in April. Similarly HSFO cracks improved on the back of regional bunker demand and the expectation of lower imports from Europe and the FSU.

As highlighted last month, this Report uses a static yield assumption for calculating refinery margins. As such, the calculations will likely under-state returns when refiners are faced with strong single product cracks, as is currently the case for kerosene in the Pacific. Weekly data from the Petroleum Association of Japan suggest refineries have achieved an overall kerosene yield of around 19%, in January and February, which is above our assumption. Unlike Europe, but in common with the US, Asian gasoil cracks weakened during the month. This reflects a surplus of high-sulphur material, given the strong Asian refinery throughputs witnessed in recent months, forcing excess product to be discounted and exported to Europe.

Refinery Throughput

OECD refinery throughputs declined in January to 39.5 mb/d from December's revised level of 39.9 mb/d and are inline with January 2005 level. In Europe the start of seasonal maintenance and some unplanned refinery outages reduced crude runs in the Netherlands, the UK and France. Overall, European throughputs were down by 300 kb/d from December's level to 13.8 mb/d, in line with January 2005. In North America, provisional January data suggest a similar combination of outages and maintenance reduced crude runs by almost 300 kb/d from December pushing runs 480 kb/d below January 2005 levels to 17.9 mb/d. Conversely, provisional January data suggest Pacific throughputs reached 7.8 mb/d, their highest monthly average in five years and some 370 kb/d above January 2005.

Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*	*Jan 05*	Utilisation rate[2]	
	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	mb/d	%	Jan 06	Jan 05
OECD North America										
US[3]	15.62	13.97	13.65	15.02	15.03	14.76	-0.44	-2.9	86.17	89.82
Canada	1.83	1.78	1.73	1.88	1.84	1.80	-0.09	-4.8	89.44	93.97
Mexico	1.28	1.28	1.18	1.18	1.31	1.33	0.05	4.1	79.10	71.96
Total	18.73	17.04	16.55	18.08	18.18	17.90	-0.48	-2.6	85.91	89.09
OECD Europe										
France	1.78	1.75	1.57	1.86	1.82	1.76	-0.05	-2.9	88.95	92.89
Germany	2.43	2.44	2.37	2.40	2.41	2.40	0.04	1.6	98.82	96.31
Italy	1.91	2.02	2.05	1.98	1.89	1.90	0.07	4.1	81.73	78.63
Netherlands	1.04	1.07	1.02	1.09	1.05	0.91	-0.17	-15.9	74.71	88.48
Spain	1.20	1.23	1.29	1.24	1.20	1.19	0.01	1.3	93.36	92.20
UK	1.69	1.71	1.71	1.64	1.68	1.59	-0.06	-3.8	84.73	90.59
Other OECD Europe	4.20	4.05	4.25	4.13	4.08	4.09	0.22	5.7	86.40	83.47
Total	14.25	14.28	14.26	14.34	14.14	13.84	0.06	0.4	87.40	87.86
OECD Pacific										
Japan	4.17	4.17	4.08	4.14	4.31	4.52	0.32	7.5	96.80	89.32
Korea	2.16	2.35	2.39	2.52	2.54	2.53	0.09	3.7	98.36	94.86
Other OECD Pacific	0.67	0.72	0.69	0.69	0.73	0.72	-0.03	-4.6	83.66	87.73
Total	7.00	7.25	7.16	7.34	7.58	7.77	0.37	5.0	95.90	90.91
OECD Total	39.98	38.57	37.97	39.76	39.90	39.51	-0.05	-0.1	88.25	88.99

1 Estimate

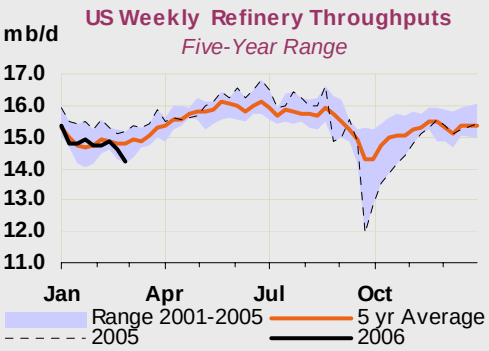
2 Based on crude throughput and current operable refining capacity

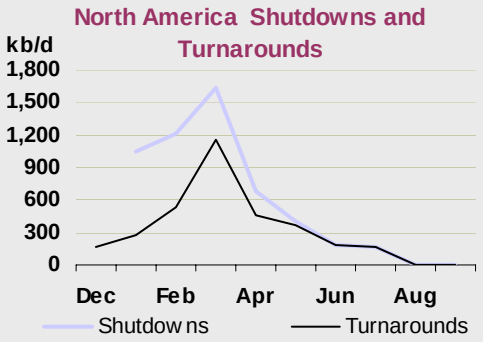
3 US50

OECD refineries should see offline capacity peak in March as the US turnaround season reaches its climax. The return during the course of March and April of the three refineries that are still offline following last year's US hurricanes will reinforce this trend of lower offline capacity. Global crude demand should, therefore, start to pick-up as we move through the second quarter, despite the heavy turnaround programme expected in OECD Pacific region.

US Refinery Maintenance Activity

US refinery throughputs have fallen in recent weeks to their lowest levels since last October as refinery maintenance activity moves into high gear. For the week ending 3 March, US refinery throughput was 14.2 mb/d. This is 1.2 mb/d lower than the post-hurricane high reached at the end of December of 15.4 mb/d and 2.6 mb/d below last summer's peak weekly throughput of 16.8 mb/d. Distillation turnaround activity is expected to increase from just over 0.5 mb/d in February to approximately 1.1 mb/d in March, after which, activity is expected to decline as refiners build inventories ahead of the peak gasoline demand season. With the tighter quality specifications due to come into force at the beginning of June, those refiners that have not yet upgraded their hydrotreating capacity are expected to incorporate this additional investment along with regular maintenance. There is some debate over the level of FCC maintenance in March, ranging from 6 to 11% of installed capacity. The higher level, if realised, could result in a much higher draw in gasoline stocks in the coming weeks.





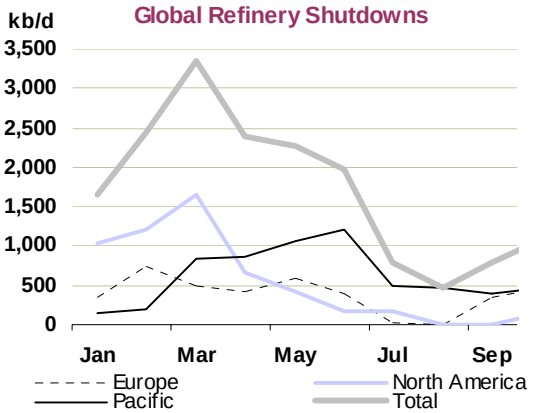
Going through March, we would expect throughputs to remain subdued as additional refineries enter maintenance. Gulf Coast planned refinery maintenance is expected to peak in March at around 450kb/d. This should, however, be offset by the re-start of several large cokers, following earlier maintenance, and the re-start towards the end of March or in early April of the three refineries out of commission following last year's hurricanes:

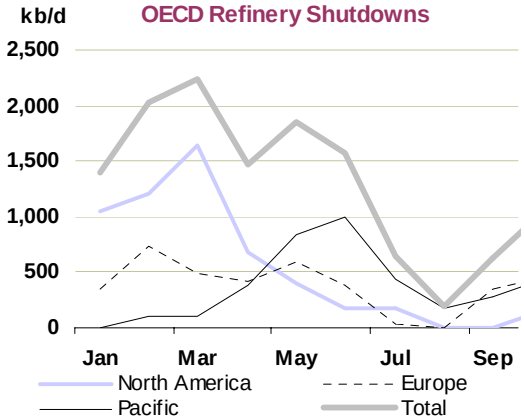
- ConocoPhillips expects its refinery at Belle Chasse to reach full operating rates before the end of March.
- BP now expects to have throughputs running at 50% of capacity by the end of March, i.e. above 200 kb/d, with a move up to full throughputs over the second quarter.
- Murphy is currently expecting to restart its Meraux refinery early in the second quarter.

Combined, these three refineries will return approximately 800 kb/d of capacity to the Gulf Coast area, bolstering US product supply ahead of the US driving season.

OECD North America

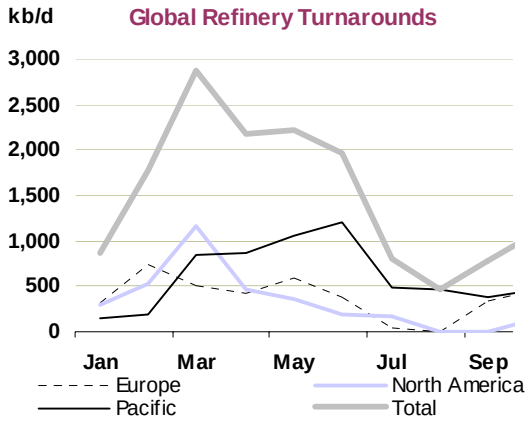
Provisional data for the US suggest refiners processed 14.8 mb/d of crude in January, a utilisation rate of 86.2% for installed capacity. This increases to 91.4% when measured against available capacity and is inline with January 2005 levels on a comparable basis. This throughput is almost 300 kb/d

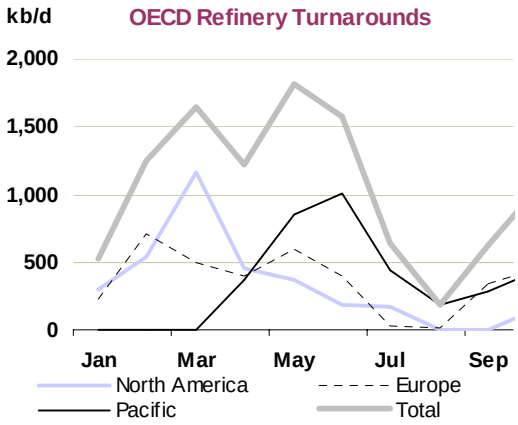




lower than December's figure of 15.0 mb/d, which has been revised down from last month's provisional estimate of 15.1 mb/d.

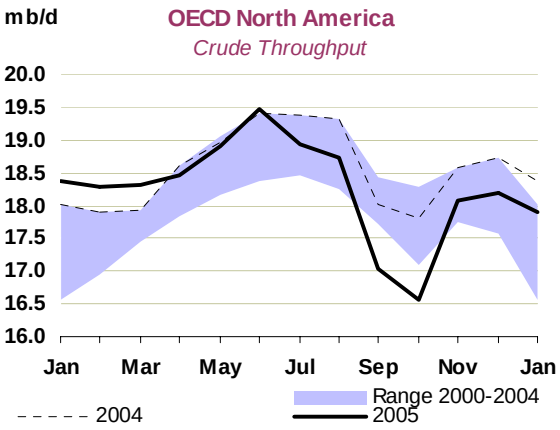
The start of US refinery maintenance activity, in line with seasonal trends, accounts for the bulk of the lower US throughputs. Weekly data from the US EIA show a lower level of refinery activity as we move into March (see *US Refinery Maintenance Activity* above). Mexican crude throughputs increased marginally from December level to 1.3 mb/d, their highest level since 1998, while Canadian crude runs fell by 31 kb/d to 1.8 mb/d.

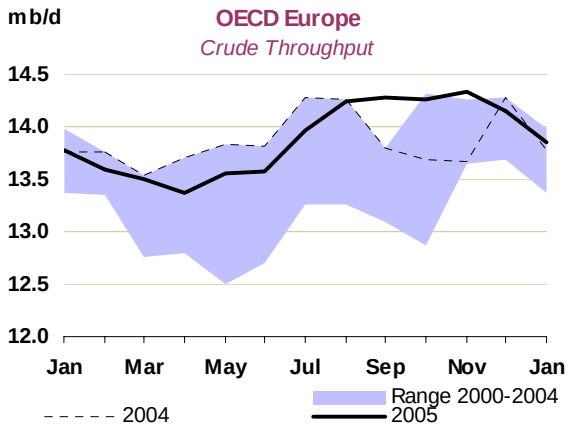


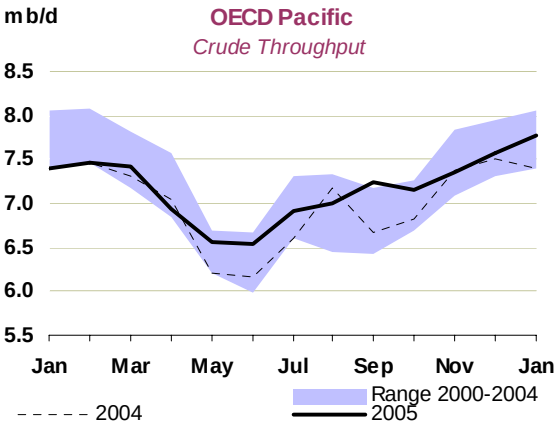


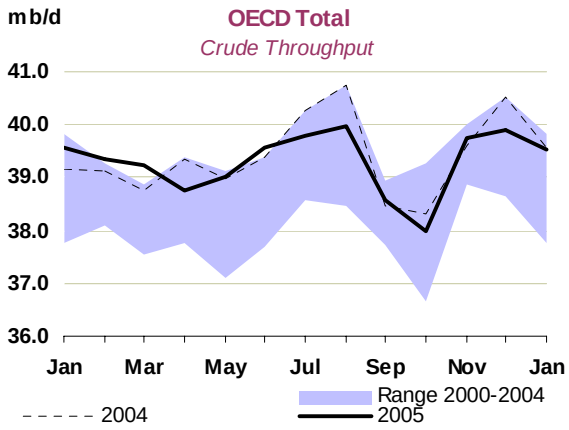
OECD Europe

European refining throughputs declined in January due to the start of seasonal refinery maintenance activity and unplanned refinery outages at the Pernis refinery in the Netherlands and the Leuna plant in Germany. European crude throughputs averaged 13.8 mb/d for the month with declines in the Netherlands of 140 kb/d, 90 kb/d in the UK and 60 kb/d in France. These moves largely accounted for the 300 kb/d decline from December's throughput level.





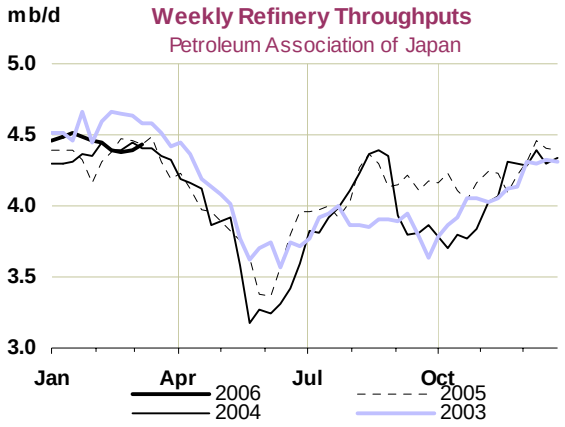


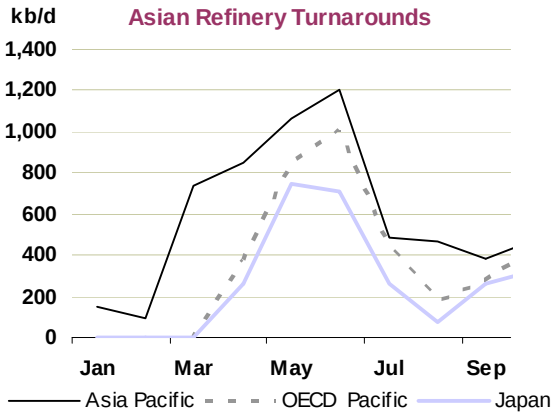


With the exception of the reported *force majeure* on propylene exports from the Leuna refinery, product supply is understood to be unaffected by these unplanned outages. Refinery operators typically cover product supply requirements ahead of turnarounds through building stocks, sourcing supply from elsewhere in their refinery network, or by securing spot market supplies. Unplanned refinery outages tend therefore to have the biggest price impact. Refinery turnarounds are understood to have started in the UK, France and Italy, with activity biased towards the Mediterranean. Survey data suggest that turnaround activity has peaked in February at just over 700 kb/d before falling away in March. This trend is set to continue through April, before activity increases again in May to around 600 kb/d.

OECD Pacific

Preliminary January data for the Pacific suggest throughputs reached their highest level in five years, averaging 7.8 mb/d, a utilisation rate of 95.9%. Korean throughputs were stable at 2.5 mb/d, close to five year highs during January. Japanese throughputs increased to 4.5 mb/d, a seven-year high. This represents a capacity utilisation rate of 96.8% for Japanese refineries. December's provisional estimate for Japan of 4.5 mb/d is revised down to 4.3 mb/d. Unlike the other OECD regions, the Pacific has yet to start its refinery turnaround season which is scheduled to begin in April at around 370 kb/d and peak in June at around 1.0 mb/d, or roughly 12% of capacity. Activity will be concentrated in Japan, where offline capacity should peak at 0.75 mb/d in May, around 16% of operable distillation capacity, before falling back to 0.7 mb/d in June.



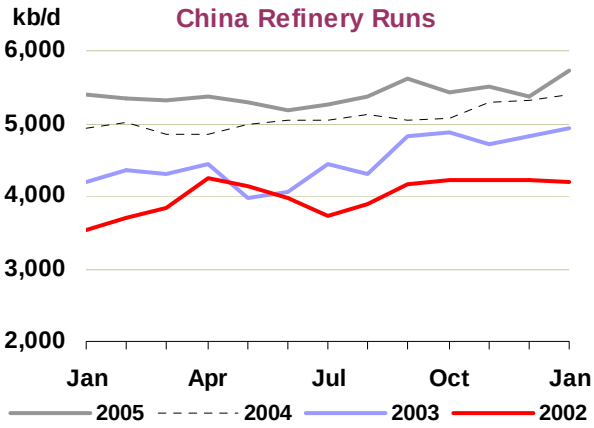


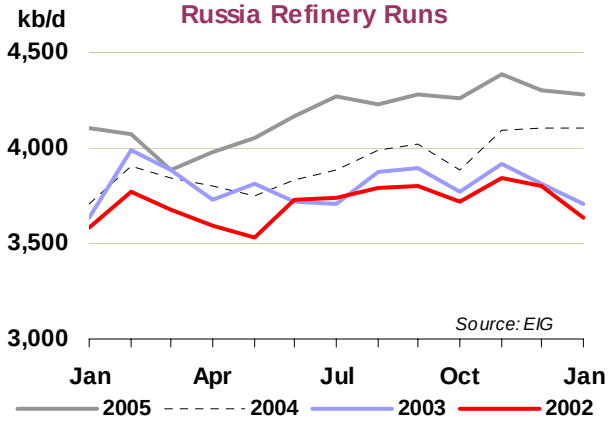
Weekly data for Japan suggests that high throughput levels have been maintained throughout February and into March, as refiners seek to build stocks ahead of their turnaround season. Korean throughputs are reported to be more vulnerable to run cuts as a result of the poor economics evident in Asia, with industry sources pointing to cuts being implemented in March.

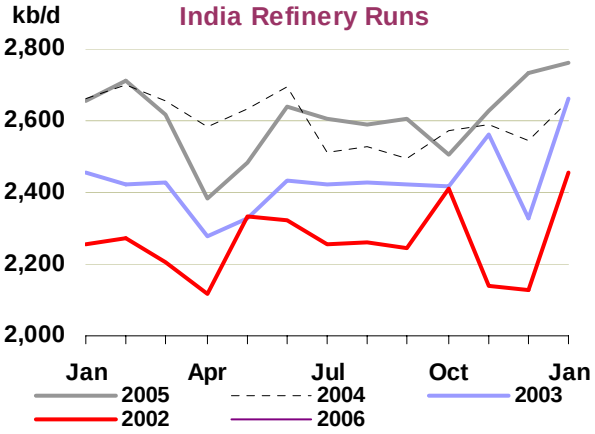
Non-OECD Throughputs

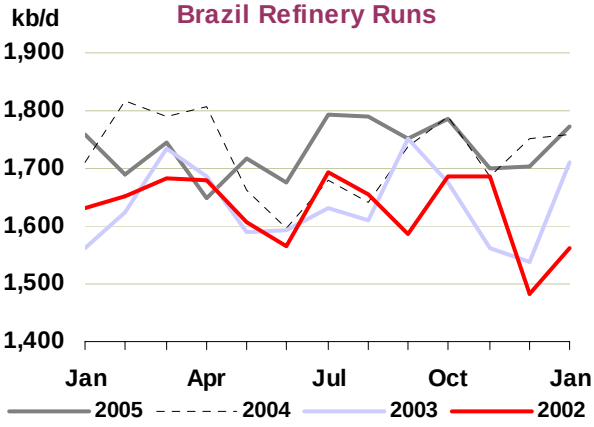
This report continues to broaden its survey of refining activity. This month, in addition to the previously covered refining activity in Russia and China, we add India and Brazil. In total, we now survey installed non-OECD capacity of nearly 16.5 mb/d and in coming months we expect to expand this coverage further.

Chinese crude throughputs as reported for the two main domestic refiners, CNPC and Sinpoec, rebounded in January to 5.7 mb/d from 5.3 mb/d in December and 324 kb/d above January 2005 levels. Peak demand associated with the Lunar New Year holidays looks to have spurred additional crude throughputs, although these appear to have lagged the surge in crude imports for the month. Preliminary data for China's twelve largest refineries indicate crude throughputs increased by a further 1% in February, but are expected to fall by some 6% in March. Russian throughputs were broadly flat in January versus December. Extremely cold weather is reported to have impacted upstream industry activities and this may have also contributed to lower throughputs for refineries. Indian refinery throughputs increased to a new five-year high of 2.8 mb/d as India continues to expand its refinery capacity. Brazilian crude throughputs recovered lost ground from December to average 1.7 mb/d in January.









OECD Refinery Yields

Monthly data from IEA Member states suggest that overall OECD refinery yield for diesel and gasoil reached 32.6% in December 2005, its highest level in ten years. European distillate yields were at the top of their historical range at 41.1%, while North American yields increased 0.5% from November to 27.6%. The majority of the increase over this period has come from Europe and North America, while Pacific yields have been stable.

Jet fuel and kerosene yields in Japan jumped to 19.2% in December from 15.9% in November as extremely cold weather increased heating-related demand for kerosene and Jet fuel by 27.3% year-on-year. Interestingly the data suggest that Korea's overall kerosene yield actually fell in December by 0.9% to 14.0%. For the Pacific region as a whole, kerosene yields averaged 17.2% in December up from 15.6% in November. A similar pattern to Korea is evident in Europe where total kerosene yields slipped from 7.0% in November to 6.8% in December.

Gasoline yields (including naphtha) increased in Europe and the Pacific in December, but fell in North America. The decline in North American yields to 47.4% from 49.4% in November may be interpreted as refiners moved away from maximum gasoline mode as the disruption to normal operations from the hurricane related damage was reduced.

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	25.4	25.4	25.6	25.6	25.9	26.2	25.8
Europe	15.3	15.4	15.7	15.2	15.6	16.0	15.6	15.6	15.3	15.7	15.7	15.6	15.8	15.2	15.5	15.9	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.1	8.1	8.8	8.6	9.5	8.1	8.2	9.0	8.7
Total OECD	48.0	48.6	50.2	48.1	49.2	50.5	49.5	50.6	48.7	49.3	50.0	49.6	50.8	48.8	49.7	51.1	50.1
NON-OECD DEMAND																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.8	3.8	3.7	3.8	3.9	3.8	3.9	3.8	3.9	4.0	3.9
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	6.8	6.6	6.8	6.8	7.0	7.3	7.0
Other Asia	8.0	8.0	8.5	8.6	8.4	8.8	8.6	8.8	8.8	8.6	8.7	8.7	8.8	8.8	8.6	8.9	8.7
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	6.2	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	33.5	32.7	33.6	33.3	33.6	33.9	33.6	34.3	34.4	34.6	35.2	34.6
Total Demand[1]	77.7	79.2	82.3	80.8	81.8	84.0	82.2	84.1	82.0	82.9	83.9	83.3	85.1	83.3	84.3	86.3	84.7
OECD SUPPLY																	
North America	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.6	13.7	13.6	14.1	14.2	14.3	14.3	14.5	14.3
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.7	5.4	5.5	5.6	5.6	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	0.5	0.5	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	19.7	20.3	20.3	20.2	20.0	20.5	20.3
NON-OECD SUPPLY																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.5	11.5	11.7	11.9	11.6	11.8	12.1	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	3.7	3.7	3.7
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	4.0	4.1	4.1	4.1	4.1	4.2	4.4	4.3	4.3	4.3	4.3	4.4	4.5	4.7	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	1.8	1.8	1.8
Africa	3.0	3.0	3.3	3.3	3.4	3.5	3.4	3.5	3.5	3.8	3.9	3.7	3.9	4.1	4.2	4.3	4.1
Total Non-OECD	24.5	25.7	26.5	26.8	27.3	27.4	27.0	27.5	27.7	28.1	28.4	27.9	28.4	29.0	29.4	29.7	29.1
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	50.4	49.7	50.0	50.1	50.6	51.1	51.3	52.2	51.3
OPEC																	
Crude[4]	25.4	27.1	28.3	28.5	29.5	29.9	29.1	29.4	29.9	30.1	30.0	29.8					
NGLs	3.4	3.6	3.9	3.9	3.9	4.0	3.9	4.1	4.1	4.2	4.2	4.2	4.3	4.4	4.5	4.5	4.4
Total OPEC	28.8	30.7	32.2	32.3	33.4	33.9	33.0	33.5	34.0	34.3	34.3	34.0					
Total Supply[5]	76.9	79.7	82.3	82.5	83.3	84.2	83.1	83.7	84.4	84.0	84.2	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	0.9	0.2	-0.6	0.1					
Government	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.3	0.0	-0.1	0.1					
Total	-0.3	0.3	-0.4	0.9	0.5	-0.1	0.2	0.0	1.2	0.2	-0.7	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	0.0	0.1	-0.1					
Miscellaneous to balance[6]	-0.5	0.1	0.7	0.8	0.7	0.1	0.6	0.0	1.1	0.9	1.0	0.7					
Total Stock Ch. & Misc	-0.8	0.5	0.0	1.6	1.5	0.2	0.8	-0.4	2.4	1.1	0.3	0.9					
Memo items:																	
Call on OPEC crude + Stock ch.[7]	26.2	26.6	28.3	26.8	28.0	29.7	28.2	29.8	27.5	29.0	29.7	29.0	30.2	27.7	28.5	29.6	29.0
Total Demand ex. FSU	74.2	75.6	78.7	77.1	78.0	80.0	78.5	80.3	78.3	79.2	80.0	79.5	81.3	79.4	80.4	82.3	80.8
Total demand exc. FSU (% ch)[8]	1.1	1.9	3.5	4.8	3.5	3.3	3.8	2.0	1.6	1.4	0.0	1.2	1.2	1.4	1.6	2.8	1.7

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 As of the March 2006 OMR, Venezuelan Orinoco heavy crude production is included within Venezuelan crude estimates. Orimulsion fuel remains within the OPEC NGL & non-conventional 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

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
Europe	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-0.1	-0.2	-0.1	-0.1
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-0.1	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.2	-0.2	-0.2	-0.2	-0.2
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.2	-0.2	-0.2	-0.3	-0.2
Total Demand	-	-	-	-	-	-	-	-	-	-	-0.2	-	-0.2	-0.3	-0.4	-0.4	-0.3
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.2	-	0.1	0.1	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.2	-	0.1	0.2	-
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-0.2	-0.1	-0.1	-0.1	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.3	-0.2	-0.1	-0.1	-0.2
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.5	-0.2	-	0.1	-0.2
OPEC																	
Crude	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.6	0.6	0.6	0.6	0.6					
NGLs	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Total OPEC	-	-	-	-	-	-	-	-	-	-	-	-					
Total Supply	-	-	-	-	-	-	-	-	-	-	-0.1	-					
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-	0.1	-0.1	-					
Government	-	-	-	-	-	-	-	-	-	-	-	-					
Total	-	-	-	-	-	-	-	-	-	0.1	-0.1	-					
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-	-	-0.1	-					
Miscellaneous to balance	-	-	-	-	-	-	-	-	-	-0.1	0.3	0.1					
Total Stock Ch. & Misc	-	-	-	-	-	-	-	-	-	-	0.1	-					
Memo items:																	
Call on OPEC crude + Stock ch.	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.6	0.6	0.6	0.5	0.6	0.8	0.5	0.2	0.1	0.4
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.2	-0.3	-0.4	-0.4	-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	25.03	25.41	25.69	25.34	25.53	25.30	25.47	25.40	25.43	25.55	25.56	25.94	26.19	25.81
Europe	15.43	15.66	15.20	15.60	16.02	15.62	15.56	15.30	15.71	15.73	15.58	15.75	15.20	15.55	15.89	15.60
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.10	8.12	8.83	8.63	9.50	8.09	8.22	8.97	8.69
Total OECD	48.65	50.17	48.13	49.17	50.48	49.49	50.57	48.70	49.29	49.97	49.63	50.81	48.85	49.71	51.06	50.11
FSU	3.59	3.51	3.72	3.79	4.00	3.76	3.82	3.71	3.79	3.90	3.80	3.88	3.84	3.89	4.01	3.90
Europe	0.69	0.76	0.70	0.66	0.71	0.71	0.78	0.72	0.67	0.72	0.72	0.80	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	6.76	6.59	6.83	6.85	6.99	7.26	6.98
Other Asia	8.05	8.47	8.57	8.39	8.80	8.56	8.82	8.78	8.58	8.68	8.72	8.76	8.79	8.58	8.86	8.75
Latin America	4.67	4.71	4.87	4.96	4.89	4.86	4.85	5.01	5.07	5.03	4.99	4.95	5.11	5.18	5.13	5.09
Middle East	5.27	5.54	5.48	5.81	5.64	5.62	5.83	5.77	6.10	5.92	5.91	6.12	6.06	6.39	6.22	6.20
Africa	2.73	2.82	2.84	2.75	2.85	2.81	2.92	2.94	2.82	2.92	2.90	2.99	3.02	2.89	3.00	2.97
Total Non-OECD	30.56	32.09	32.72	32.66	33.50	32.74	33.57	33.34	33.65	33.93	33.62	34.33	34.41	34.59	35.21	34.63
World	79.21	82.26	80.85	81.83	83.98	82.23	84.14	82.04	82.94	83.90	83.25	85.14	83.25	84.30	86.26	84.74
of which:																
US	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.80*	*20.66*	*20.86*	*20.74*	*20.76*	*20.85*	*20.90*	*21.18*	*21.35*	*21.07*
Euro4	*8.30*	*8.39*	*8.10*	*8.36*	*8.48*	*8.34*	*8.19*	*8.06*	*8.37*	*8.25*	*8.22*	*8.17*	*7.98*	*8.19*	*8.29*	*8.16*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.99*	*5.08*	*5.51*	*5.41*	*6.08*	*4.93*	*5.10*	*5.57*	*5.42*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.00*	*2.22*	*2.17*	*2.36*	*2.08*	*2.05*	*2.30*	*2.20*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.04*	*2.07*	*2.05*	*2.10*	*2.11*	*2.11*	*2.14*	*2.11*
Canada	*2.21*	*2.30*	*2.20*	*2.31*	*2.36*	*2.29*	*2.35*	*2.23*	*2.23*	*2.23*	*2.26*	*2.23*	*2.21*	*2.30*	*2.34*	*2.27*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.12*	*2.17*	*2.24*	*2.24*	*2.19*	*2.15*	*2.22*	*2.28*	*2.27*	*2.23*
India	*2.47*	*2.66*	*2.65*	*2.49*	*2.65*	*2.61*	*2.77*	*2.64*	*2.53*	*2.61*	*2.64*	*2.79*	*2.69*	*2.51*	*2.63*	*2.65*
Annual Change (% per annum)																
North America	1.7	3.1	3.8	2.9	3.5	3.3	1.2	1.1	0.2	-1.1	0.3	0.1	1.0	1.9	3.1	1.5
Europe	1.0	1.4	0.4	0.9	2.3	1.3	-0.7	0.6	0.7	-1.8	-0.3	1.3	-0.7	-1.0	1.0	0.1
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.5	-0.5	0.6	1.2	0.2	-0.2	1.3	1.6	0.7
Total OECD	1.4	1.1	1.7	2.2	1.9	1.7	0.8	1.2	0.3	-1.0	0.3	0.5	0.3	0.8	2.2	1.0
FSU	3.2	-8.2	16.0	10.5	2.8	4.7	8.6	-0.3	-0.1	-2.5	1.2	1.6	3.4	2.7	3.0	2.7
Europe	3.8	2.5	2.5	3.0	3.1	2.8	2.6	2.6	2.0	1.8	2.2	2.8	1.7	1.8	1.8	2.1
China	11.0	18.0	23.4	9.2	12.0	15.4	4.3	-1.9	4.9	2.4	2.4	4.3	6.9	5.4	7.3	6.0
Other Asia	1.2	6.8	8.9	5.3	4.6	6.3	4.2	2.4	2.3	-1.4	1.9	-0.7	0.2	-0.1	2.0	0.3
Latin America	-1.8	4.8	5.0	3.9	2.8	4.1	3.1	2.9	2.2	2.8	2.7	2.0	2.1	2.2	2.0	2.1
Middle East	1.9	5.9	9.4	5.9	5.1	6.5	5.3	5.3	5.0	4.9	5.1	5.0	5.1	4.8	5.1	5.0
Africa	1.6	2.8	3.6	3.7	2.9	3.2	3.5	3.5	2.7	2.5	3.1	2.4	2.5	2.5	2.6	2.5
Total Non-OECD	2.8	5.9	11.1	6.3	5.4	7.1	4.6	1.9	3.0	1.3	2.7	2.3	3.2	2.8	3.8	3.0
World	2.0	3.0	5.3	3.8	3.2	3.8	2.3	1.5	1.4	-0.1	1.2	1.2	1.5	1.6	2.8	1.8
Annual Change (mb/d)																
North America	0.40	0.76	0.93	0.70	0.86	0.81	0.31	0.27	0.06	-0.28	0.09	0.02	0.26	0.47	0.79	0.39
Europe	0.16	0.22	0.05	0.14	0.36	0.20	-0.11	0.10	0.11	-0.28	-0.05	0.20	-0.10	-0.16	0.15	0.02
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.20	-0.04	0.06	0.10	0.02	-0.02	0.10	0.14	0.06
Total OECD	0.69	0.57	0.79	1.07	0.93	0.84	0.40	0.57	0.12	-0.51	0.14	0.24	0.15	0.42	1.09	0.47
FSU	0.11	-0.31	0.51	0.36	0.11	0.17	0.30	-0.01	0.00	-0.10	0.05	0.06	0.13	0.10	0.12	0.10
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	0.01	0.01
China	0.55	0.96	1.24	0.53	0.71	0.86	0.27	-0.12	0.31	0.16	0.15	0.28	0.44	0.36	0.49	0.39
Other Asia	0.09	0.54	0.70	0.43	0.38	0.51	0.36	0.21	0.19	-0.12	0.16	-0.06	0.02	-0.01	0.18	0.03
Latin America	-0.08	0.22	0.23	0.18	0.13	0.19	0.14	0.14	0.11	0.14	0.13	0.10	0.10	0.11	0.10	0.10
Middle East	0.10	0.31	0.47	0.33	0.27	0.34	0.29	0.29	0.29	0.28	0.29	0.29	0.30	0.29	0.30	0.30
Africa	0.04	0.08	0.10	0.10	0.08	0.09	0.10	0.10	0.07	0.07	0.09	0.07	0.07	0.07	0.07	0.07
Total Non-OECD	0.84	1.80	3.27	1.95	1.71	2.18	1.48	0.62	0.99	0.43	0.88	0.76	1.07	0.94	1.28	1.01
World	1.53	2.37	4.06	3.02	2.64	3.02	1.88	1.19	1.11	-0.08	1.02	0.99	1.21	1.36	2.36	1.49
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-	-	-	-	-	-	-0.02	-0.09	-0.03	-0.05	-0.06	-0.11	-0.10	-0.08
Europe	-	-	-	-	-	-	-	-	-	0.04	0.01	0.08	-0.03	-0.04	-0.03	-0.01
Pacific	-	-	-	-	-	-	-	-	0.01	-0.01	-	-0.04	-0.01	-0.02	-0.01	-0.02
Total OECD	-	-	-	-	-	-	-	-	-	-0.07	-0.02	-0.01	-0.10	-0.17	-0.14	-0.11
FSU	-	-	-	-	-	-	-	-	-	-	-	-0.05	0.02	-0.01	-0.06	-0.03
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-0.04	-0.01	0.01	-	0.01	-0.01	-
Other Asia	-	-	-	-	-	-	-	-	-	-0.07	-0.02	-0.17	-0.16	-0.20	-0.22	-0.19
Latin America	-	-	-	-	-	-	-	-	-	0.04	0.01	-	-	-0.01	0.01	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-0.01	-	-0.01	-0.01	-0.01	-0.03	-0.02
Total Non-OECD	-	-	-	-	-	-	-	-	-	-0.09	-0.02	-0.23	-0.16	-0.23	-0.31	-0.23
World	-	-	-	-	-	-	-	-	-	-0.15	-0.04	-0.24	-0.26	-0.40	-0.45	-0.34
Revisions to Oil Demand Growth from Last Month's Report (mb/d)																
World	-	-	-	-	-	-	0.00	0.00	0.00	-0.15	-0.04	-0.24	-0.26	-0.40	-0.30	-0.30

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	3Q05	4Q05	1Q06	2Q06	3Q06	Dec 05	Jan 06	Feb 06
OPEC											
Crude Oil											
Saudi Arabia	8.75	9.15		9.26	9.21				9.21	9.15	9.15
Iran	3.93	3.88		3.81	3.89				3.89	3.70	3.70
Iraq	1.99	1.81		1.96	1.66				1.54	1.50	1.84
UAE	2.35	2.46		2.53	2.60				2.67	2.54	2.48
Kuwait	2.05	2.13		2.11	2.20				2.21	2.22	2.23
Neutral Zone	0.60	0.58		0.57	0.58				0.59	0.60	0.59
Qatar	0.77	0.80		0.80	0.82				0.82	0.82	0.82
Nigeria	2.32	2.40		2.39	2.45				2.46	2.35	2.27
Libya	1.55	1.64		1.65	1.65				1.65	1.65	1.67
Algeria	1.20	1.34		1.36	1.37				1.37	1.36	1.36
Venezuela	2.59	2.71		2.73	2.65				2.64	2.61	2.62
Indonesia	0.97	0.94		0.94	0.94				0.94	0.92	0.92
Total Crude Oil	29.06	29.85		30.10	30.02				29.97	29.42	29.64
Total NGLs[1]	3.91	4.16	4.45	4.18	4.24	4.34	4.44	4.50	4.25	4.34	4.33
Total OPEC	32.97	34.01		34.28	34.26				34.23	33.76	33.97
NON-OPEC[2]											
OECD											
North America	14.58	14.07	14.30	13.73	13.59	14.17	14.29	14.26	13.99	14.10	14.24
United States	7.66	7.27	7.28	7.04	6.61	7.14	7.26	7.36	6.85	7.08	7.14
Mexico	3.83	3.76	3.74	3.70	3.72	3.79	3.76	3.73	3.82	3.81	3.77
Canada	3.09	3.04	3.28	2.99	3.25	3.25	3.27	3.17	3.32	3.21	3.32
Europe	6.10	5.64	5.39	5.42	5.51	5.59	5.37	5.16	5.63	5.60	5.59
UK	2.06	1.83	1.72	1.66	1.78	1.84	1.70	1.60	1.83	1.86	1.86
Norway	3.19	2.97	2.89	2.93	2.92	2.96	2.88	2.78	3.00	2.95	2.93
Others	0.85	0.84	0.78	0.83	0.81	0.79	0.79	0.78	0.81	0.79	0.80
Pacific	0.58	0.58	0.57	0.60	0.56	0.52	0.54	0.59	0.55	0.47	0.54
Australia	0.54	0.54	0.53	0.56	0.52	0.48	0.50	0.55	0.51	0.43	0.50
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	20.30	20.26	19.76	19.66	20.29	20.20	20.00	20.18	20.18	20.37
NON-OECD											
Former USSR	11.22	11.64	12.10	11.68	11.90	11.77	12.09	12.23	11.87	11.61	11.79
Russia	9.23	9.48	9.77	9.54	9.64	9.57	9.75	9.85	9.64	9.50	9.55
Others	1.99	2.15	2.33	2.13	2.25	2.20	2.34	2.38	2.23	2.11	2.24
Asia	6.25	6.34	6.46	6.38	6.37	6.43	6.46	6.47	6.29	6.47	6.41
China	3.48	3.62	3.66	3.64	3.59	3.64	3.65	3.67	3.51	3.68	3.62
Malaysia	0.86	0.83	0.83	0.85	0.85	0.84	0.84	0.83	0.85	0.84	0.85
India	0.80	0.77	0.81	0.73	0.75	0.78	0.81	0.82	0.75	0.78	0.77
Others	1.11	1.13	1.16	1.17	1.18	1.17	1.16	1.15	1.18	1.17	1.17
Europe	0.17	0.16	0.15	0.16	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Latin America	4.07	4.29	4.49	4.31	4.33	4.35	4.41	4.52	4.36	4.35	4.31
Brazil	1.79	1.98	2.19	2.02	2.03	2.07	2.10	2.22	2.04	2.06	2.08
Argentina	0.80	0.78	0.75	0.78	0.76	0.75	0.76	0.75	0.77	0.75	0.73
Colombia	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53
Ecuador	0.53	0.53	0.55	0.52	0.55	0.53	0.55	0.56	0.56	0.54	0.51
Others	0.42	0.47	0.46	0.47	0.46	0.47	0.46	0.46	0.47	0.47	0.47
Middle East[3]	1.92	1.83	1.79	1.83	1.81	1.81	1.80	1.79	1.80	1.81	1.79
Oman	0.79	0.77	0.76	0.77	0.76	0.76	0.76	0.76	0.76	0.76	0.75
Syria	0.49	0.46	0.43	0.45	0.44	0.44	0.43	0.43	0.44	0.44	0.44
Yemen	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41	0.41
Africa	3.37	3.67	4.14	3.77	3.87	3.92	4.09	4.23	3.88	3.91	3.92
Egypt	0.71	0.70	0.68	0.69	0.70	0.69	0.68	0.68	0.68	0.69	0.69
Angola	0.99	1.25	1.49	1.32	1.39	1.42	1.45	1.50	1.41	1.42	1.42
Gabon	0.24	0.23	0.23	0.24	0.24	0.24	0.24	0.23	0.24	0.24	0.24
Others	1.44	1.50	1.73	1.52	1.55	1.57	1.72	1.81	1.55	1.56	1.57
Total Non-OECD	27.01	27.93	29.13	28.13	28.43	28.43	29.00	29.38	28.35	28.30	28.38
Processing Gains[4]	1.83	1.86	1.90	1.84	1.88	1.92	1.89	1.88	1.88	1.92	1.92
TOTAL NON-OPEC	50.10	50.10	51.29	49.73	49.97	50.64	51.09	51.26	50.41	50.40	50.67
TOTAL SUPPLY	83.07	84.11		84.01	84.23				84.64	84.16	84.64

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Venezuelan Orimulsion (but not Orinoco 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			
	Sep2005	Oct2005	Nov2005	Dec2005	Jan2006*	Jan2003	Jan2004	Jan2005	1Q2005	2Q2005	3Q2005	4Q2005
North America												
Crude	433.9	452.1	454.5	444.4	440.2	382.9	382.8	405.0	0.38	0.14	-0.15	0.11
Motor Gasoline	227.3	228.8	230.8	234.8	253.2	244.3	237.9	248.5	0.00	0.00	-0.19	0.08
Middle Distillate	198.5	199.8	210.1	213.1	220.9	184.8	195.8	197.3	-0.26	0.17	0.08	0.16
Residual Fuel Oil	42.0	42.3	47.4	44.3	47.2	39.9	46.7	49.0	-0.02	-0.03	-0.04	0.02
Total Products[3]	663.2	663.1	674.2	658.8	676.1	615.2	622.6	650.6	-0.32	0.57	-0.16	-0.05
Total[4]	1257.2	1278.0	1288.3	1244.7	1257.1	1129.0	1145.0	1195.0	-0.01	0.82	-0.19	-0.14
Europe												
Crude	338.5	334.1	326.6	327.9	332.9	314.2	318.7	323.3	0.24	-0.06	0.01	-0.12
Motor Gasoline	106.0	110.1	111.0	113.3	114.8	122.4	123.9	126.9	0.07	-0.19	0.02	0.08
Middle Distillate	259.6	264.6	261.3	258.6	257.8	232.9	244.8	254.1	0.05	-0.03	0.19	-0.01
Residual Fuel Oil	76.0	77.0	76.7	73.2	73.1	68.6	79.0	72.4	-0.07	0.04	0.04	-0.03
Total Products[3]	542.3	554.9	550.3	547.3	547.6	520.8	549.1	556.6	0.06	-0.23	0.25	0.05
Total[4]	957.1	963.9	952.7	948.7	953.2	901.6	940.7	948.3	0.33	-0.31	0.31	-0.09
Pacific												
Crude	168.1	174.6	166.1	159.2	150.1	163.7	172.9	178.8	-0.02	0.08	-0.09	-0.10
Motor Gasoline	22.8	24.4	24.2	22.6	24.5	23.8	24.8	27.1	0.01	-0.01	-0.02	0.00
Middle Distillate	77.9	84.4	78.9	61.2	61.4	64.0	66.2	68.2	-0.29	0.11	0.21	-0.18
Residual Fuel Oil	23.9	24.0	23.2	20.5	21.2	22.9	23.1	22.3	-0.01	0.02	0.01	-0.04
Total Products[3]	191.5	202.0	191.4	167.7	166.8	173.2	175.9	186.5	-0.37	0.20	0.20	-0.26
Total[4]	432.0	452.3	431.8	395.8	384.9	410.2	419.3	435.5	-0.45	0.36	0.11	-0.39
Total OECD												
Crude	940.5	960.8	947.2	931.5	923.1	860.8	874.4	907.1	0.60	0.17	-0.23	-0.10
Motor Gasoline	356.2	363.2	366.0	370.8	392.6	390.5	386.7	402.5	0.08	-0.19	-0.19	0.16
Middle Distillate	536.0	548.8	550.3	532.8	540.1	481.6	506.7	519.6	-0.51	0.25	0.47	-0.03
Residual Fuel Oil	141.9	143.3	147.3	138.0	141.5	131.4	148.7	143.7	-0.10	0.03	0.00	-0.04
Total Products[3]	1396.9	1420.0	1415.9	1373.8	1390.5	1309.2	1347.6	1393.7	-0.63	0.54	0.29	-0.25
Total[4]	2646.4	2694.1	2672.8	2589.2	2595.2	2440.7	2505.0	2578.7	-0.13	0.87	0.23	-0.62

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			
	Sep2005	Oct2005	Nov2005	Dec2005	Jan2006*	Jan2003	Jan2004	Jan2005	1Q2005	2Q2005	3Q2005	4Q2005
North America												
Crude	693.7	685.2	685.6	684.5	683.8	599.3	641.2	679.7	0.14	0.09	-0.03	-0.10
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	167.0	167.0	167.7	166.9	166.9	155.1	157.4	165.1	-0.04	0.01	0.02	0.00
Products	237.4	236.8	236.5	239.0	239.0	201.8	215.4	209.8	0.04	0.26	0.02	0.02
Pacific												
Crude	382.1	381.1	380.5	379.8	380.0	380.3	384.8	384.5	0.00	-0.01	-0.01	-0.03
Products	11.2	11.2	11.3	11.2	11.3	9.5	11.0	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1242.7	1233.3	1233.9	1231.2	1230.8	1134.7	1183.3	1229.3	0.10	0.09	-0.02	-0.12
Products	250.6	250.0	249.8	252.2	252.3	213.3	228.4	222.8	0.04	0.26	0.02	0.02
Total[4]	1494.3	1484.3	1484.6	1484.4	1484.1	1349.0	1412.7	1453.1	0.14	0.35	0.00	-0.11

* 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 2004		End March 2005		End June 2005		End September 2005		End December 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	167.8	72	164.8	74	164.7	74	170.5	76	167.4	-
Mexico	41.3	21	44.2	21	45.6	22	52.8	25	43.9	-
United States[4]	1646.8	80	1658.8	81	1740.5	84	1707.4	82	1697.9	-
Total[4]	1878.0	74	1889.9	75	1972.9	78	1952.9	77	1931.2	76
Pacific										
Australia	33.2	38	34.8	38	35.7	40	34.1	37	32.7	-
Japan	635.3	105	604.9	121	629.4	124	637.9	116	612.1	-
Korea	149.4	62	137.4	67	142.5	71	145.4	65	134.9	-
New Zealand	8.0	49	7.9	53	9.0	64	7.9	49	7.1	-
Total	825.9	87	785.0	97	816.6	101	825.3	93	786.8	83
Europe[5]										
Austria	21.0	75	20.6	72	20.8	69	20.2	70	20.7	-
Belgium	27.2	40	26.9	48	27.8	53	30.3	48	30.1	-
Czech Republic	16.3	85	17.0	78	15.9	70	16.7	79	18.8	-
Denmark	16.2	86	16.3	89	17.2	96	20.5	111	20.4	-
Finland	24.4	110	26.2	125	27.0	122	27.3	124	25.1	-
France	186.2	90	187.4	99	185.6	94	191.4	99	195.6	-
Germany	267.2	106	280.5	111	279.4	102	275.8	105	282.6	-
Greece	35.7	77	35.7	97	32.6	83	34.6	74	34.8	-
Hungary	16.2	128	19.6	137	17.0	109	17.1	108	17.6	-
Ireland	12.0	60	10.6	58	11.6	63	13.2	65	11.7	-
Italy	135.8	73	133.7	75	132.1	75	137.0	73	132.0	-
Luxembourg	0.9	14	0.9	13	0.8	13	0.8	12	0.8	-
Netherlands	108.3	109	109.4	103	116.6	114	115.7	115	116.4	-
Norway	26.6	109	29.2	130	21.0	88	30.2	99	30.7	-
Poland	30.6	74	33.9	79	34.5	72	33.8	71	35.2	-
Portugal	24.3	69	25.6	77	26.5	77	26.8	81	25.7	-
Slovak Republic	6.2	95	7.0	99	6.5	85	6.4	83	6.4	-
Spain	119.8	72	126.7	80	129.4	82	131.7	84	128.6	-
Sweden	33.8	93	32.0	88	35.4	99	34.6	94	38.0	-
Switzerland	36.3	131	37.1	147	38.0	135	38.9	137	37.7	-
Turkey	55.3	100	55.4	80	52.2	76	50.8	82	51.2	-
United Kingdom	104.1	60	102.2	55	102.3	54	108.7	59	95.4	-
Total	1304.3	84	1333.8	87	1330.2	85	1362.5	87	1355.6	86
Total OECD	4008.2	80	4008.7	83	4119.7	84	4140.7	83	4073.6	80
DAYS OF IEA Net Imports[6]	-	114	-	114	-	117	-	117	-	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 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]*		
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	4016	1435	2581	80	28	51
4Q2004	4008	1450	2558	80	29	51
1Q2005	4009	1462	2546	83	30	52
2Q2005	4120	1494	2625	84	30	53
3Q2005	4141	1494	2646	83	30	53
4Q2005	4074	1484	2589	80	29	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 4Q2005 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2003	2004	2005	1Q05	2Q05	3Q05	4Q05	Oct 05	Nov 05	Dec 05	Year Earlier Dec 04	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.55	0.46	0.45	0.45	0.41	0.53	0.44	0.49	0.65	0.47	0.18
Europe	1.00	1.03	0.89	0.88	0.88	0.92	0.89	0.92	0.97	0.78	1.16	-0.38
Pacific	1.18	1.24	1.31	1.40	1.22	1.25	1.37	1.28	1.50	1.35	1.60	-0.25
Saudi Medium												
North America	0.83	0.80	0.81	0.97	0.89	0.58	0.81	0.60	0.84	0.99	0.97	0.02
Europe	0.11	0.11	0.16	0.12	0.13	0.20	0.16	0.16	0.18	0.15	0.19	-0.04
Pacific	0.24	0.23	0.25	0.21	0.24	0.26	0.30	0.26	0.33	0.32	0.20	0.12
Saudi Heavy												
North America	0.30	0.22	0.17	0.18	0.15	0.20	0.16	0.14	0.14	0.21	0.21	0.00
Europe	0.19	0.23	0.23	0.19	0.20	0.27	0.26	0.32	0.26	0.18	0.16	0.03
Pacific	0.16	0.15	0.25	0.25	0.20	0.26	0.29	0.23	0.31	0.32	0.17	0.16
Iraqi Basrah Light[2]												
North America	0.44	0.71	0.60	0.56	0.69	0.56	0.59	0.65	0.53	0.58	0.69	-0.11
Europe	0.09	0.21	0.23	0.19	0.19	0.24	0.31	0.30	0.29	0.35	0.15	0.20
Pacific	0.03	0.12	0.06	0.07	0.06	0.06	0.06	0.06	0.03	0.08	0.06	0.02
Iraqi Kirkuk												
North America	0.06	0.02	..	..	..	..	..	..	..	..	..	..
Europe	0.12	0.08	0.05	0.02	0.04	0.13	0.03	0.04	0.02	0.02	0.18	-0.16
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.19	0.24	0.20	0.23	0.18	0.16	0.22	0.23	0.14	0.27	0.30	-0.03
Pacific	0.17	0.16	0.15	0.19	0.13	0.14	0.15	0.15	0.12	0.17	0.17	0.00
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.59	0.57	0.63	0.62	0.63	0.71	0.55	0.56	0.73	0.36	0.59	-0.23
Pacific	0.69	0.65	0.62	0.76	0.59	0.52	0.63	0.54	0.56	0.79	0.66	0.12
Venezuelan Light & Medium												
North America	0.69	0.67	0.81	0.78	0.88	0.79	0.79	0.77	0.76	0.84	0.76	0.08
Europe	0.02	0.01	0.04	0.02	0.03	0.06	0.07	0.01	0.17	0.02	..	..
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.60	0.88	0.71	0.83	0.82	0.66	0.55	0.51	0.52	0.61	0.97	-0.35
Europe	0.06	0.05	0.06	0.06	0.06	0.08	0.06	0.07	0.04	0.06	0.02	0.04
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	1.32	1.36	1.28	1.30	1.36	1.17	1.30	1.13	1.25	1.51	1.26	0.25
Europe	0.16	0.16	0.17	0.18	0.17	0.16	0.18	0.25	0.13	0.15	0.12	0.03
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.00	..	0.03	0.01	0.00	0.02	0.10	0.10	0.06	0.13	..	..
Europe	0.00	0.01	0.03	0.02	0.01	0.02	0.05	0.09	0.07	..	..	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.14	0.12	0.13	0.14	0.14	0.16	0.09	0.18	0.08	0.00	0.18	-0.18
Europe	1.62	1.86	1.76	1.72	1.93	1.76	1.65	1.82	1.61	1.51	1.46	0.06
Pacific	0.00	0.01	0.00	..	0.00	0.01	..	..	..	..	..	..
Nigerian Light[4]												
North America	0.63	0.80	0.90	0.87	0.88	0.94	0.90	0.85	1.01	0.85	0.69	0.16
Europe	0.41	0.28	0.35	0.30	0.27	0.41	0.41	0.34	0.32	0.55	0.31	0.24
Pacific	0.08	0.11	0.05	0.06	0.06	0.07	0.02	0.06	..	..	0.16	..
Nigerian Medium												
North America	0.17	0.23	0.17	0.18	0.22	0.13	0.15	0.02	0.15	0.27	0.20	0.07
Europe	0.06	0.04	0.07	0.07	0.04	0.08	0.07	0.07	0.10	0.05	0.02	0.03
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)

	2003	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Oct-05	Nov-05	Dec-05	Year Earlier Dec-04	Year Earlier % change
Crude Oil												
North America	8069	8397	8391	8577	8614	8251	8126	7990	8479	7920	8472	-7%
Europe	9096	9477	9823	9695	9503	10095	9991	10156	9981	9835	9564	3%
Pacific	6711	6659	6802	7166	6434	6643	6969	7041	6733	7124	6662	6%
Total OECD	23876	24533	25015	25438	24552	24988	25086	25188	25193	24879	24699	1%
LPG												
North America	27	24	18	23	3	18	30	32	9	47	33	30%
Europe	193	225	217	293	149	207	220	214	195	250	265	-6%
Pacific	541	541	527	532	591	500	486	358	485	614	532	13%
Total OECD	760	790	762	848	743	725	735	604	689	911	830	9%
Naphtha												
North America	67	86	110	124	89	151	76	62	66	98	158	-61%
Europe	305	282	269	279	231	287	279	253	322	264	308	-17%
Pacific	770	769	746	772	759	693	760	828	696	752	813	-8%
Total OECD	1142	1137	1125	1175	1080	1132	1115	1144	1084	1114	1279	-15%
Gasoline[3]												
North America	669	766	1012	849	1020	1046	1129	1400	1029	956	659	31%
Europe	150	137	161	172	145	207	120	126	67	165	55	67%
Pacific	70	105	102	95	130	93	91	65	120	90	122	-35%
Total OECD	888	1007	1275	1115	1294	1346	1341	1591	1217	1211	835	31%
Jet & Kerosene												
North America	97	88	131	67	43	139	271	317	306	191	83	57%
Europe	271	293	360	273	361	438	366	350	354	395	326	17%
Pacific	102	77	66	97	72	48	49	51	40	55	100	-82%
Total OECD	470	457	557	437	476	625	686	717	701	641	509	21%
Gasoil/Diesel												
North America	126	122	142	110	92	99	267	304	270	225	67	70%
Europe	652	751	828	931	716	807	859	763	889	926	1046	-13%
Pacific	73	74	79	60	94	79	83	53	101	96	72	26%
Total OECD	850	946	1049	1101	902	984	1209	1120	1261	1247	1184	5%
Heavy Fuel Oil												
North America	326	388	525	489	433	566	611	657	686	492	399	19%
Europe	398	405	497	415	550	529	491	452	443	578	343	41%
Pacific	88	76	85	83	82	90	83	61	100	88	37	57%
Total OECD	812	870	1107	988	1065	1185	1185	1170	1229	1157	780	33%
Other Products												
North America	680	824	1004	735	1064	1166	1047	1364	939	836	809	3%
Europe	690	676	776	718	807	799	778	828	755	749	663	12%
Pacific	235	256	247	254	248	225	263	229	251	308	313	-2%
Total OECD	1605	1756	2028	1708	2119	2189	2088	2422	1944	1893	1785	6%
Total Products												
North America	1991	2298	2943	2399	2745	3185	3431	4137	3306	2846	2207	22%
Europe	2657	2767	3108	3082	2960	3273	3114	2987	3026	3325	3005	10%
Pacific	1879	1898	1852	1894	1975	1728	1814	1644	1793	2003	1989	1%
Total OECD	6527	6964	7903	7374	7679	8186	8358	8767	8125	8174	7201	12%
Total Oil												
North America	10061	10695	11334	10976	11359	11436	11557	12127	11785	10766	10680	1%
Europe	11753	12245	12930	12777	12463	13368	13105	13143	13007	13161	12569	4%
Pacific	8590	8558	8654	9059	8409	8370	8782	8685	8526	9127	8651	5%
Total OECD	30403	31497	32918	32812	32231	33174	33444	33955	33318	33054	31900	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

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INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

12 April 2006

HIGHLIGHTS

- NYMEX WTI and IPE Brent crude futures pushed towards $70 /bbl in early April, lifted by continuing geopolitical uncertainty over Iran, strong gasoline prices and disruptions to Nigerian supply. Anticipation of higher US crude demand as refiners come out of seasonal maintenance also contributed to upward price pressures. While 2Q global product demand is projected to fall by 1.5 mb/d from 1Q, increased refinery activity could add up to 1.6 mb/d to crude demand.

- Global demand growth is revised down slightly from 1.49 mb/d to 1.47 mb/d. This is a rebound from a hurricane-depressed 1.05 mb/d in 2005, with the recovery weighted towards the second half of 2006. As anticipated, receipt of detailed 2004 annual data for non-OECD demand lifts the baseline by 310 kb/d and correspondingly reduces the miscellaneous-to-balance.

- World oil supply fell 125 kb/d in March to 84.5 mb/d. OPEC, North American and North Sea production outages outstripped higher non-OECD production. A weaker first half trims 35 kb/d from 2006 non-OPEC supply, but new field start-ups still boost this year's growth to 1.2 mb/d, supplemented by 275 kb/d of OPEC NGLs.

- March OPEC supply fell by 215 kb/d to 29.7 mb/d on Nigerian outages and lower Iranian and Iraqi exports. Damage to Iraq's northern pipeline suggests exports to Ceyhan are unlikely for some time. Cold weather and supply outages lifted the 1Q 'call on OPEC crude and stock change' 700 kb/d above OPEC supply, pointing to a draw in 1Q global balances.

- OECD total industry oil stocks fell by 13 mb in February as draws in distillates and other products in the Atlantic Basin outpaced builds in US and Pacific crude stocks. Upward revisions to January preliminary data put total inventories at 2616 mb, 46 mb above last year. OECD forward demand stock cover came to 53 days, one day higher than last year and last month.

Next Issue: 12 May 2006

CONTENTS

HIGHLIGHTS 1

CONTENTS 2

ACCOUNTING FOR CHANGE 3

DEMAND 4
- Summary 4
- OECD 6
  - Pacific 6
  - Europe 7
  - North America 8
- Non-OECD 9
  - China 9
  - Other Non-OECD 11
- Demographics Help Drive Middle East Oil Product Demand Growth 13

SUPPLY 14
- Summary 14
- OPEC 15
- OECD 18
  - North America 18
- Unscheduled Outages Defer Non-OPEC Rebound 19
  - North Sea 20
  - Pacific 21
- Former Soviet Union (FSU) 21
- Other Non-OPEC 23
  - Revisions to Other Non-OPEC Estimates 23

OECD STOCKS 24
- Summary 24
- OECD Industry Stock Changes in February 2006 25
  - OECD North America 25
  - OECD Europe 25
  - OECD Pacific 26
- OECD Inventory Position at End-February and Revisions to Preliminary Data 26
- Recent Developments in ARA Independent Storage 27
- Recent Developments in Singapore Stocks 27

PRICES 29
- Summary 29
- Oil Futures Prices 30
  - Crude Futures 30
  - Product Futures 31
- Spot Crude Oil Prices 32
  - Delivered Crude Prices in January 33
- Spot Product Prices 35
  - End-User Product Prices in March 36
- Freight 38

REFINERY ACTIVITY 39
- Summary 39
- Refining Margins 39
  - OECD North America 40
  - OECD Europe 41
  - Asia 41
- OECD Refinery Yields 41
- Refinery Throughput 43
  - OECD North America 44
  - OECD Europe 44
  - OECD Pacific 45
  - Non-OECD Throughputs 45

TABLES 46

OIL MARKET REPORT CONTACTS

ACCOUNTING FOR CHANGE

The oil market, by virtue of its importance to the global economy, is supported by the most comprehensive statistical data of any commodity market. Even so, the numbers never add up perfectly for reasons that may include:

- under/over reported supply
- under/over reported demand
- unreported stock changes

Rather than force the adjustment into one particular category, country or product, we leave these residuals in the 'miscellaneous-to-balance' *(mtb)*. This keeps the data clean and allows the Report (and others) to opine on possible causes (random or systemic). The *mtb* is essentially a warning flag that, when added to demand, stocks and the Call on OPEC or subtracted from supply, gives a range of outcomes. When better data come in, a portion shifts from the *mtb* to another part of the balance sheet - a simple accounting exercise. The alternative is to force the balance into one or more categories but, in the absence of reliable information, this actually increases the risk of error and reduces market transparency.

This month's upward adjustments to baseline global demand come as little surprise – this Report has been flagging the likelihood of underreported consumption since early 2004 when the *mtb* first started to rise. The changes lift baseline demand by 310 kb/d in 2004 and are carried forward. The adjustment has not come from China, which saw booming demand in 2004, but the other key growth areas in that year: the Middle East and Asian Pacific countries. Large revisions to data are never welcome, but they improve market understanding and can serve as a lesson in future data-collection exercises.

As these demand shifts were expected, the focus should be not on the level of baseline demand, but whether they alter growth projections. Clearly they raise 2004 demand growth from its already exceptional 3.8% to 4.0% and growth for 2005 is lifted from 1.2% to 1.3%. However, there is little impact on oil demand trends in 2006, with growth unchanged at 1.8%. That this remains close to the long-term trend of oil demand growth is a testimony to the current strength of the global economy. Without high prices, oil demand would undoubtedly be much stronger.

(million barrels per day)	1Q2004	2Q2004	3Q2004	4Q2004	1Q2005	2Q2005	3Q2005	4Q2005	1Q2006	2Q2006	3Q2006	4Q2006
Miscellaneous to balance	0.4	0.5	0.5	-0.2	-0.4	0.7	0.5	0.6				
8Q Average Misc-to-Bal	-0.1	0.0	0.0	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Call on OPEC crude + Stock ch.	28.6	27.2	28.3	30.0	30.1	27.9	29.4	30.0	30.4	28.4	29.0	29.8
Adjusted Call*	28.5	27.1	28.3	30.1	30.3	28.1	29.7	30.3	30.7	28.7	29.3	30.1

* Equals the sum of "Call on OPEC Crude + Stock ch." and average "Miscellaneous to balance"

However, price effects are more than just an input into an economic model. High oil prices and revenue distribution are partly behind the ongoing problems in Nigeria and Chad. In other countries, record profits for oil companies have led to windfall taxes and the renegotiation of the tax take from oil fields. This, in turn, threatens to reduce investment, so perpetuating the upward price spiral.

The ongoing Nigerian output losses and continued concern over Iran are unlikely to be resolved in the near future. Crude oil prices and product prices have also been bolstered by near-term tightness. Refiners have been buying spot crude in preparation for the end of heavier-than-normal seasonal maintenance, while at the same time, heavy maintenance and a series of unplanned outages has led to a sharp fall in US gasoline stocks and higher spot gasoline prices.

But these same factors may actually serve to relieve upward price pressures in the future. Spot gasoline is tight, but the pending return of US refineries from maintenance and the restart of 800 kb/d of hurricane-affected Gulf Coast refinery capacity by mid-May, is contributing to the lower forward prices on NYMEX gasoline futures - despite the approaching driving season.

For now, actual and potential supply disruptions and falling US product stock levels are driving the oil price rally. The first quarter was particularly tight, with the Call on OPEC running between 700kb/d and 1 mb/d above OPEC production. While this tightness appears to ease in the second quarter, employing the Adjusted Call suggests underlying demand for the year is in line with current production leaving little margin for error. Although the prospect of improved refined product supply and weaker demand growth offers some solace, the market is focussing on the present rather than the future.

DEMAND

Summary

- **Global oil product** demand growth in 2006 is revised down slightly from 1.49 mb/d to 1.47 mb/d. This still represents a rebound from a hurricane-depressed 1.05 mb/d in 2005, with the recovery weighted towards the second half of 2006. Robust global economic growth continues to support oil product demand, but the negative effects of high oil prices are visible in most areas. OECD demand grew by only 0.3% in 2005 and is expected to increase by a modest 0.8% 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)	82.6	81.2	82.1	84.3	82.5	84.5	82.4	83.3	84.2	83.6	85.2	83.7	84.8	86.5	85.1
Annual Change (%)	3.2	5.5	4.0	3.4	4.0	2.3	1.5	1.4	-0.1	1.3	0.9	1.6	1.8	2.8	1.8
Annual Change (mb/d)	2.5	4.2	3.2	2.8	3.2	1.9	1.2	1.2	-0.1	1.1	0.7	1.3	1.5	2.3	1.5
Changes from last month's report (mb/d)	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.1	0.5	0.5	0.3	0.3

- **Historical non-OECD** demand has been revised upwards with the inclusion of more detailed product-level data for a number of countries. On the whole, 2004 demand is increased by 310 kb/d. In most cases this adjustment is extended through to subsequent years, so the underlying growth picture remains largely unchanged. The UAE accounts for just under half of the 2004 revision, in large part due to an adjustment in bunkers' demand. Indonesia also posted unexpectedly strong growth in 2004 and demand is revised up by some 60 kb/d. Note that historical non-OECD demand may be subject to further adjustment before the finalised 2004 data are released in August 2006.

- **Revisions to non-OECD** data show that demand grew by an astonishing 7.6% outside of the OECD in 2004. China and the Middle East led the way, with 15.4% and 7.5% growth respectively. Although many non-OECD economies continue to expand rapidly, aside from the Middle East, demand growth has fallen off substantially with the rise in oil prices. In 2005, non-OECD demand is estimated to have grown by only 2.7% and in 2006 it is expected to increase by 3.1%.

Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2005	2004	2005	2006	2004	2005	2006
North America	25.43	0.81	0.10	0.32	3.3	0.4	1.3
Europe	16.32	0.24	-0.03	0.04	1.5	-0.2	0.2
OECD Pacific	8.63	-0.16	0.10	0.06	-1.9	1.2	0.7
China	6.59	0.86	0.15	0.36	15.4	2.4	5.5
Other Asia	8.78	0.56	0.16	0.04	7.0	1.8	0.5
Subtotal Asia	24.00	1.25	0.41	0.46	5.6	1.7	1.9
FSU	3.80	0.17	0.05	0.13	4.7	1.2	3.5
Middle East	6.13	0.41	0.31	0.32	7.5	5.4	5.2
Africa	2.91	0.09	0.09	0.07	3.4	3.0	2.5
Latin America	5.00	0.21	0.13	0.11	4.4	2.6	2.2
World	83.60	3.18	1.05	1.47	4.0	1.3	1.8

- **North American** demand was unexpectedly weak in the first quarter of 2006, declining by some 0.8% year-on-year. The decline may be attributed in part to very warm weather and a fall in natural gas prices which limited interfuel substitution of fuel oil for natural gas. A recovery in US demand growth is expected in the second quarter of 2006, but there is certainly downside risk due to high prices. Aside from gasoline, which dominates the US product market, a key indicator will be the demand for diesel. In spite of high prices, diesel had continued to post strong growth throughout most of 2005 on the back of a robust economic expansion. However, more recently there have been signs that diesel demand growth may have slowed.

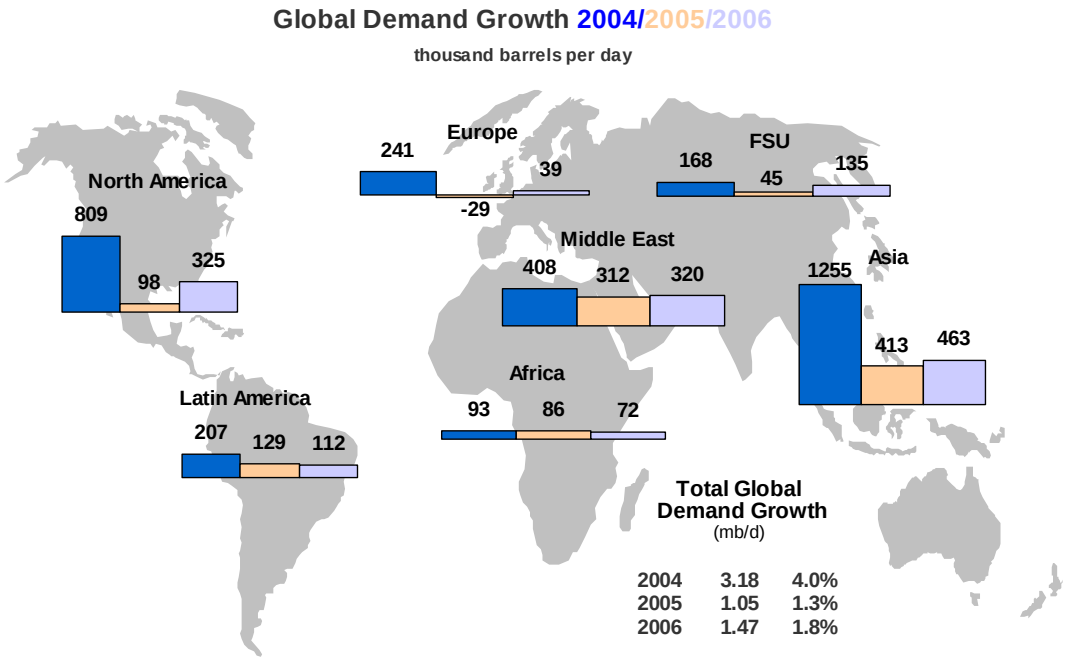
- **OECD Pacific** demand growth was quite weak in the first two months of 2006, with the exception of fuel oil and 'other products,' a category which includes crude for direct burning in power generation. Because Indonesia has been unable to supply some contracted volumes of liquefied natural gas (LNG), Japanese utilities have increased the use of heavy sweet crudes as fuel for power generation. In February there was a reported 24% year-on-year decline in the use of LNG in power generation and a 12% drop in hydropower generation. As a result, total oil use in power was reported to be 160 kb/d above levels of a year ago.

Preliminary Inland Deliveries - February 2006[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]	9.03	2.6	1.60	-4.5	2.94	0.6	1.34	5.3	0.89	-4.7	4.9	-2.6	20.71	0.3
Mexico	0.70	7.4	0.06	0.0	0.34	9.8	0.00	na	0.29	-4.6	0.4	-4.9	1.78	2.5
Japan	1.01	-2.5	0.94	-11.9	0.65	-3.7	0.57	-12.7	0.56	7.3	1.9	4.7	5.62	-2.4
Korea	0.16	-3.1	0.06	-25.7	0.37	5.1	0.15	-28.3	0.31	-10.7	1.2	5.5	2.20	-1.9
France	0.22	-5.9	0.13	1.6	0.64	1.6	0.43	-14.8	0.09	20.5	0.5	1.3	1.99	-2.7
Germany	0.50	-3.2	0.16	1.2	0.54	-0.6	0.59	-5.3	0.10	-5.7	0.4	-9.2	2.34	-4.2
Italy	0.29	-3.0	0.08	11.1	0.53	5.4	0.13	-11.4	0.31	48.2	0.4	-2.9	1.78	5.7
Total	**11.91**	**1.8**	**3.03**	**-6.5**	**6.00**	**1.3**	**3.22**	**-5.8**	**2.56**	**2.1**	**9.7**	**-0.6**	**36.41**	**-0.4**

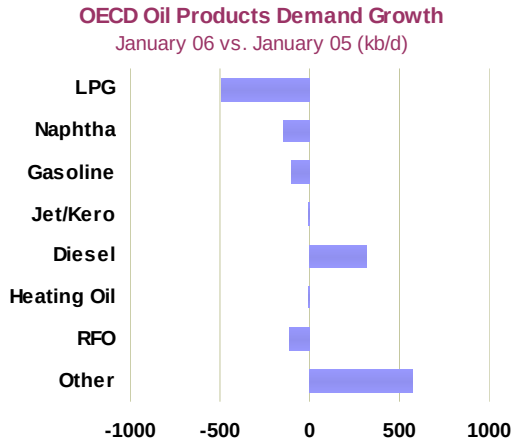
Sources: US EIA, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry
1 Excludes refinery fuel and bunkers (except US)
2 Includes direct use of crude oil
3 Fifty states only. Diesel's share of total distillate is estimated.
Note: Monthly US demand data are subject to revision, as discussed in the Reports dated 13 July and 11 August 2005

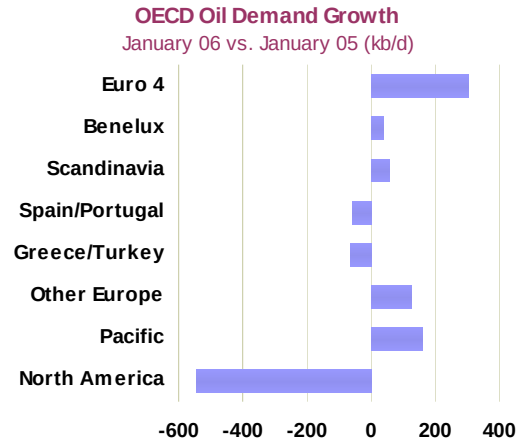
- **Chinese apparent demand** growth staged a bit of a comeback in February, increasing by a preliminary 4.0% year-on-year. However, Chinese demand growth is still projected to come in below previous expectations in the first quarter of 2006. While other products appear to be returning to a more consistent pattern of growth, fuel oil demand remains weak. Recent reports confirm that China's power market is rapidly returning to balance, lessening the demand for relatively high priced oil products in power generation. China's power shortage is expected to shrink from an estimated 35 GW in 2004 to only 10 GW in 2006. By 2007 it is thought that a capacity surplus will emerge.



- **The Chinese government** recently enacted a number of changes that will affect the market in both the short and long term. Among the various changes, tax rebates on gasoline and naphtha exports were again eliminated, retail prices of diesel and gasoline were raised and the consumption tax on large vehicles was increased. While a 3% and 5% increase in the administered retail price of diesel and gasoline respectively was below expectations, this, coupled with the elimination of tax rebates on exports, will increase the incentive for refiners to supply the domestic market.

OECD





Total OECD Demand by Product
(million barrels per day)

	2004	2005	1Q05	2Q05	3Q05	4Q05	Nov 05	Dec 05	Jan 06	Latest month vs. Dec 05	Latest month vs. Jan 05
LPG & Ethane	4.87	4.71	5.40	4.33	4.35	4.75	4.69	5.39	5.03	-0.36	-0.49
Naphtha	3.22	3.22	3.40	3.15	3.25	3.11	3.16	3.19	3.25	0.05	-0.14
Motor Gasoline	14.88	14.87	14.46	15.08	15.19	14.73	14.69	15.01	13.99	-1.02	-0.10
Jet & Kerosene	4.11	4.23	4.62	3.91	4.00	4.41	4.26	5.03	4.61	-0.42	-0.01
Gas/Diesel Oil	12.85	13.04	13.38	12.65	12.74	13.37	13.60	13.70	13.17	-0.53	0.31
Residual Fuel Oil	4.59	4.57	4.88	4.36	4.44	4.62	4.62	4.89	4.80	-0.09	-0.11
Other Products	4.97	5.00	4.42	5.23	5.33	4.99	5.18	4.71	4.72	0.02	0.57
Total Products	**49.49**	**49.64**	**50.57**	**48.71**	**49.29**	**49.99**	**50.20**	**51.91**	**49.57**	**-2.34**	**0.01**

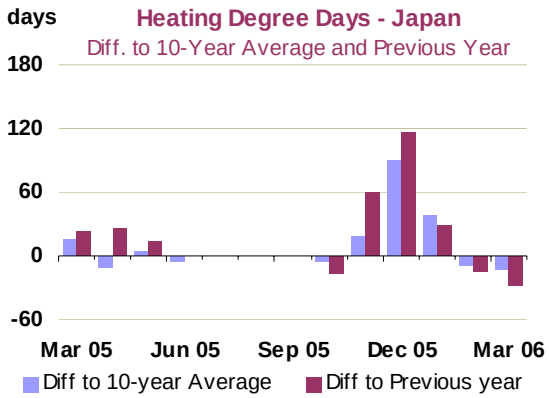
Pacific

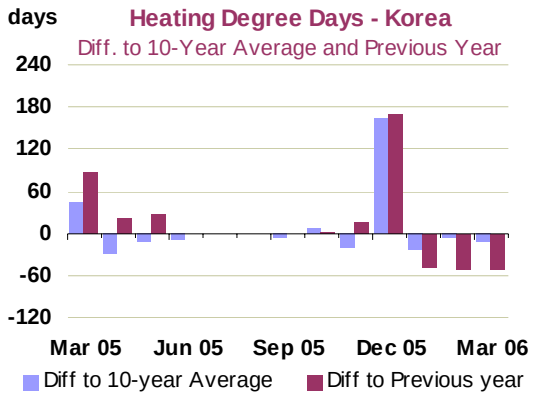
Provisional inland delivery data for February suggest that oil product demand was generally weak in both Japan and Korea. A notable exception was the continued strong growth in demand for heavy sweet crudes used in power generation in Japan. Japanese deliveries of 'other products,' which includes crude for direct burning, increased by some 77.0%. Total oil use in power generation rose to a reported 515 kb/d in February, over 160 kb/d above levels of a year ago. The large increase may be attributed to a reported 24% year-on-year decline in the use of LNG in power generation, as well as a 12% drop in hydropower generation. As discussed in last month's Report, Indonesia has been unable to supply some contracted LNG volumes and the high price of spot LNG cargoes has led Japanese utilities to shift to oil in thermal power generation.

OECD Pacific Demand by Product
(million barrels per day)

	2004	2005	1Q05	2Q05	3Q05	4Q05	Nov 05	Dec 05	Jan 06	Latest month vs. Dec 05	Latest month vs. Jan 05
LPG & Ethane	0.88	0.90	1.00	0.87	0.83	0.90	0.91	0.97	0.96	-0.01	0.01
Naphtha	1.57	1.62	1.69	1.54	1.62	1.61	1.66	1.68	1.74	0.06	0.04
Motor Gasoline	1.60	1.61	1.59	1.59	1.66	1.61	1.60	1.72	1.51	-0.21	0.01
Jet & Kerosene	1.02	1.05	1.54	0.77	0.72	1.20	1.08	1.73	1.61	-0.12	-0.03
Gas/Diesel Oil	1.89	1.88	1.99	1.85	1.76	1.92	1.94	2.09	1.81	-0.28	-0.04
Residual Fuel Oil	1.05	1.05	1.17	0.98	0.98	1.06	1.06	1.15	1.19	0.03	0.07
Other Products	0.52	0.52	0.52	0.50	0.54	0.53	0.53	0.60	0.60	-0.01	0.10
Total Products	**8.53**	**8.63**	**9.49**	**8.10**	**8.12**	**8.83**	**8.79**	**9.95**	**9.42**	**-0.53**	**0.16**

Among other products, February deliveries of kerosene were relatively weak as average temperatures exceeded levels of a year ago. Deliveries of gasoline and diesel also declined year-on-year. Aside from fuel oil and 'other products,' Japanese deliveries of other oil products declined by some 7% year-on-year in February.





In Korea, temperatures were relatively mild in January and February versus levels of a year ago, thereby contributing to weakness in the demand for kerosene, which is used for heating. At the same time, February deliveries of diesel and naphtha were relatively strong, which is in line with Korea's expected 5% economic growth in 2006. The reported shutdown of two naphtha crackers in the second half of March may temper naphtha demand at the end of the first quarter.

Europe

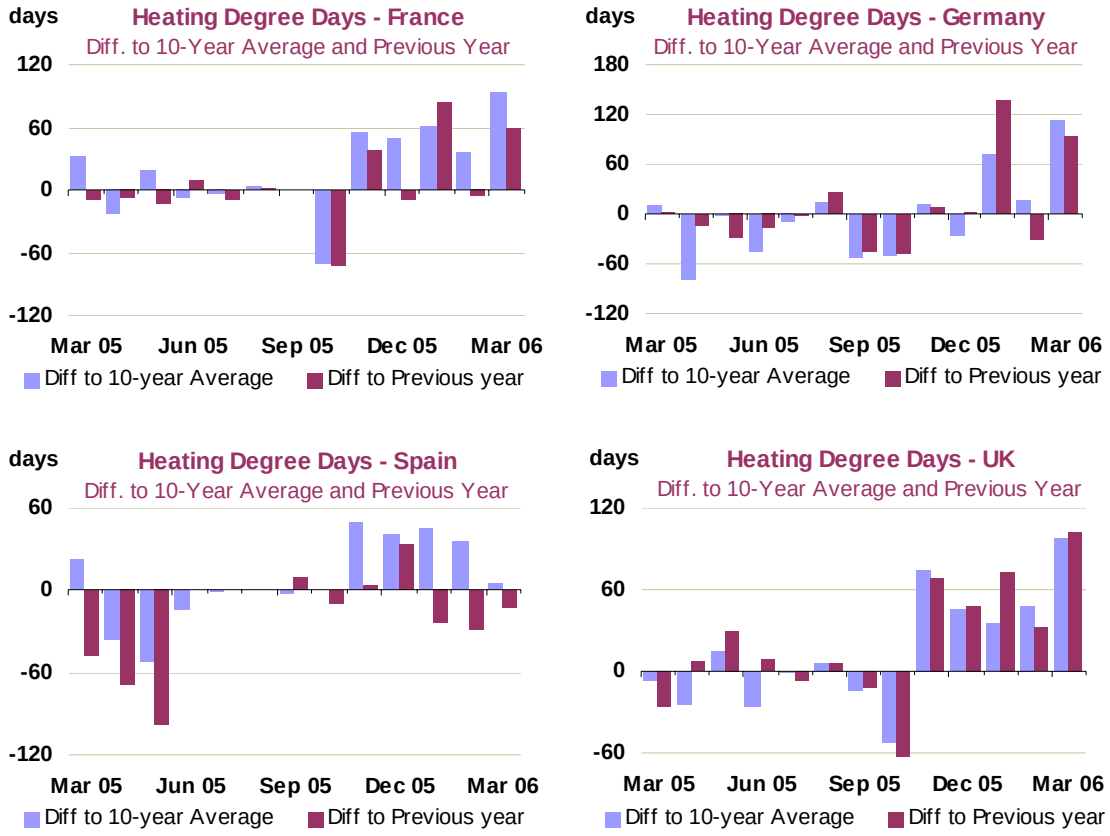
Preliminary indications are that February demand growth was generally weak among Europe's major consumers (France, Germany and Italy). Average temperatures were typically fairly low, but last February was even colder, so weather-related demand for heating oil was below levels of a year ago in France and Germany. Demand for other oil products, especially gasoline which is in long-term decline, remained weak. Jet fuel/kerosene was the only product that saw a rise in inland deliveries across all three economies. In spite of a relatively stagnant underlying growth pattern, overall cold temperatures mean that Europe is the only OECD region expected to post positive year-on-year demand growth in the first quarter of 2006.

OECD Europe Demand by Product
(million barrels per day)

	2004	2005	1Q05	2Q05	3Q05	4Q05	Nov 05	Dec 05	Jan 06	Latest month vs. Dec 05	Latest month vs. Jan 05
LPG & Ethane	1.03	1.00	1.13	0.91	0.93	1.03	1.01	1.13	1.08	-0.05	-0.04
Naphtha	1.15	1.17	1.21	1.15	1.14	1.20	1.23	1.17	1.15	-0.01	-0.07
Motor Gasoline	2.78	2.65	2.53	2.76	2.75	2.55	2.55	2.56	2.37	-0.19	-0.04
Jet & Kerosene	1.18	1.25	1.15	1.24	1.36	1.25	1.21	1.28	1.18	-0.10	0.07
Gas/Diesel Oil	5.98	6.09	6.17	5.80	6.07	6.33	6.61	6.32	6.23	-0.09	0.39
Residual Fuel Oil	2.02	1.95	2.12	1.90	1.84	1.93	1.92	2.06	2.10	0.04	0.03
Other Products	1.48	1.47	1.26	1.55	1.62	1.45	1.52	1.29	1.24	-0.05	0.05
Total Products	**15.62**	**15.58**	**15.56**	**15.31**	**15.71**	**15.73**	**16.06**	**15.81**	**15.35**	**-0.46**	**0.40**

A notable exception to the relatively weak demand picture was in fuel oil. Deliveries were very strong in both France and Italy. In France hydropower supplies were down, necessitating increased use of fuel oil among electrical utilities. Italy's increase may be attributed to interfuel substitution for natural gas in electricity generation due to substantial shortfalls in Russian gas supplies.

As has been the case since the winter of 2004/05, German consumer stocks of heating oil remain below historical norms. Capacity fill was reported to be 49% at the end of February. Temperatures were well below levels of a year ago in March, but early indications are that deliveries of heating oil may have increased roughly in line with weather related consumer demand. As a consequence, the March drawdown in consumer stocks should fall within historical norms. In this context it should be noted that recent flooding in parts of Europe has disrupted barge traffic, which may have a short-lived impact on oil product delivery patterns.



Turkey's reported January demand was an outlier as it fell some 225 kb/d below expectations, at only 445 kb/d. The last time monthly demand was reported to drop below 450 kb/d was December 1991. It is likely that this was an exceptional occurrence related to disruptions to deliveries or anomalies in reporting. However, a cautionary note is in order as it now appears there will be revisions to historical bunkers' demand data for Turkey in 2005. These changes will be incorporated into next month's Report.

North America

US oil product demand has been surprisingly weak, prompting a 190 kb/d downward revision to the first quarter of 2006. Thus, year-on-year demand growth has declined for two consecutive quarters (4Q 2005 and 1Q 2006). This has not happened since the period following 11 September 2001, when air travel plummeted and the economy slowed.

In spite of a weakening first quarter 2006 trend, it is too early to write off US demand prospects. January was extraordinarily warm, thereby reducing the demand for heating fuels. February saw continued weakness in demand for residual fuel oil as natural gas prices have declined. Preliminary indications of unexpected weakness in March 2006 product demand growth should also be viewed in the context of strong demand in March 2005. Moreover, US demand growth will almost certainly rebound in the second half of 2006 versus a lower hurricane-affected 2005 baseline.

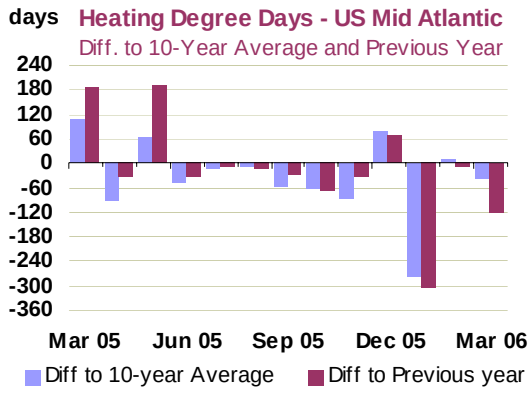
OECD North America Demand by Product
(million barrels per day)

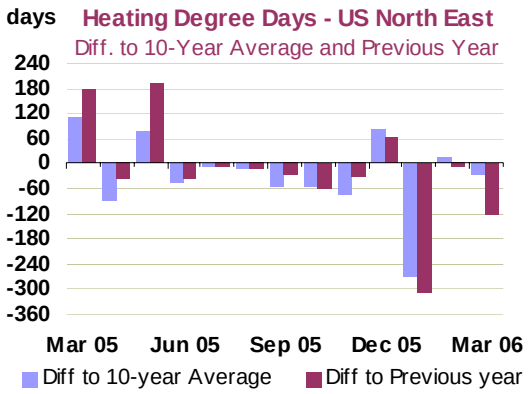
	2004	2005	1Q05	2Q05	3Q05	4Q05	Nov 05	Dec 05	Jan 06	Latest month vs. Dec 05	Latest month vs. Jan 05
LPG & Ethane	2.95	2.80	3.27	2.54	2.58	2.83	2.76	3.28	2.99	-0.29	-0.46
Naphtha	0.50	0.44	0.50	0.47	0.49	0.29	0.27	0.35	0.35	0.00	-0.11
Motor Gasoline	10.50	10.61	10.35	10.74	10.77	10.58	10.54	10.74	10.12	-0.62	-0.07
Jet & Kerosene	1.91	1.93	1.94	1.89	1.93	1.97	1.96	2.02	1.82	-0.20	-0.06
Gas/Diesel Oil	4.98	5.07	5.22	5.00	4.91	5.13	5.06	5.29	5.13	-0.16	-0.05
Residual Fuel Oil	1.51	1.58	1.60	1.47	1.62	1.63	1.63	1.67	1.51	-0.16	-0.21
Other Products	2.97	3.00	2.65	3.18	3.17	3.01	3.13	2.81	2.88	0.07	0.42
Total Products	**25.34**	**25.43**	**25.53**	**25.30**	**25.47**	**25.43**	**25.36**	**26.16**	**24.79**	**-1.36**	**-0.54**

April and May 2006 will be key months to watch in terms of evaluating the extent to which US demand will recover in the face of high oil prices. Although May 2005 was unusually cold, the weather will begin to play a lesser role in assessing oil demand growth as temperatures moderate. April and May 2005 demand growth was comparatively weak overall, so demand should rebound to some extent.

Diesel demand is a particularly important indicator as it has generally kept pace with the US economic expansion. US preliminary weekly data do not separate automotive diesel from heating oil, but there are signs that diesel demand may have declined year-on-year in March 2006. Although positive growth in diesel demand is expected for the rest of the year as the economy remains strong, if diesel demand is weak in coming months it could be an indication of the potential impact of prolonged high prices.

Among other developments, US retail gasoline prices continue to rise, increasing by some 9 cents per gallon between 26 March and 3 April. The US government also released new fuel efficiency standards for light trucks, a category that includes minivans and SUVs but not large pickups because they are considered work vehicles. This class of vehicles must average 24.1 miles per gallon (MPG) by 2011, 1.9 MPG more than the 2007 target. Note that for the first time, very large SUVs will be included in the light truck category. The tighter standards will have minimal impact in the near term as it will take a number of years to see an effect on the total vehicle fleet.





Canadian demand has been revised upwards by 25 kb/d for the fourth quarter of 2005. However, year-on-year demand growth was still very weak in this period, declining by 4.2%. Demand also declined by 9.3% in January 2006 versus the same period in 2005. Unseasonably mild temperatures reduced demand for heating fuels, but demand for other products, including gasoline (-7.6%) was off as well. In contrast, Mexican demand growth was strong as diesel demand grew by an average of 9.7% year-on-year in January and February.

Non-OECD

China

After relatively flat growth in January (0.3%), Chinese apparent demand (refinery production plus net product imports) staged a bit of a comeback in February, increasing by some 4.0%, albeit somewhat below expectations. Although underlying conditions, including robust economic growth and surging vehicle sales, continue to suggest that a strong pattern of demand growth should return, it has failed to materialise in the first quarter of 2006.

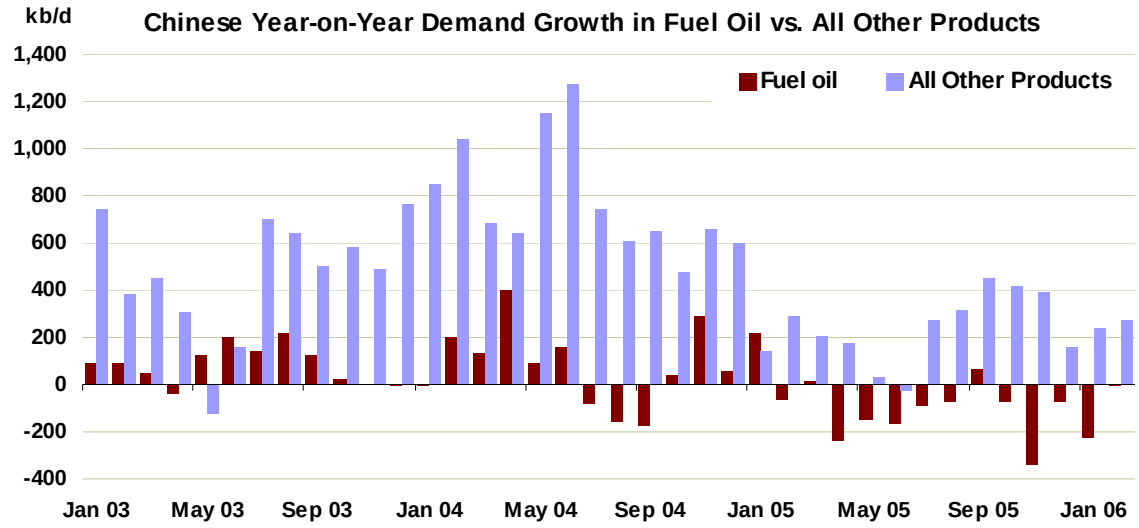
As discussed in previous Reports, a key factor suppressing oil demand growth is China's amazing 66 GW (14.9%) increase in power generation capacity in 2005. This is the equivalent of adding some 1.4 times Australia's total power generation capacity in a single year. This addition has quickly closed the demand/supply gap and lessened the need for relatively expensive oil in power. According to recent government projections, China's power shortage will shrink from 35 GW in 2004 to an estimated 10 GW in 2006. China plans to add another 72 GW of capacity in 2006, and capacity growth should exceed the growth in power demand by some 3%. The fact that water levels at key hydropower reservoirs are some 18% above levels of a year ago is also contributing to this optimistic outlook. It is thought that a capacity surplus will emerge in 2007, which could grow over time as construction of an estimated 100 GW of installed capacity was launched in 2005. By the end of 2005 some 250 GW of capacity was under construction.

China Crude & Product Trade
(thousand barrels per day)

	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Dec 05	Jan 06	Feb-06*	Latest month vs. Jan 06	Latest month vs. Feb 05
Net Imports/(Exports) of:											
Crude Oil	2346	2387	2305	2541	2294	2407	2352	3003	-	-	-
Products & Feedstocks	661	480	501	375	445	599	602	468	481	13	-77
Gasoil/Diesel	43	-19	-6	-27	-40	-3	-12	4	-2	-6	-3
Gasoline	-125	-130	-151	-161	-155	-55	-66	-94	-125	-31	-14
Heavy Fuel Oil	506	418	480	395	397	402	454	395	410	14	-7
LPG	201	194	200	179	216	182	171	121	170	50	-71
Naphtha	-33	-35	-49	-67	-25	1	24	-26	-3	23	22
Jet & Kerosene	16	11	6	5	2	30	24	29	-8	-37	-14
Other	52	41	22	51	49	42	7	40	40	0	10
Total	3008	2867	2807	2916	2739	3006	2954	3471	-	-	-

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.
* Crude exports currently reported as zero for February. Net data not included here pending confirmation.

As illustrated by the figure below, apart from fuel oil, incremental demand growth of all other products has returned to levels more typically seen in early 2003. When the demand for fuel oil resumes a somewhat more steady, albeit still declining, pattern of growth, overall demand growth should return to levels more in line with economic growth.



The Chinese government has recently enacted a number of changes that will have a possible impact on the domestic oil market in both the near and long term. In mid-March, the tax rebate on gasoline and naphtha exports was once again suspended in an effort to discourage domestic refiners from exporting. When the rebate was suspended last year, gasoline exports fell off sharply and there is evidence that this is happening again, thereby lending support to apparent demand.

China also raised retail diesel and gasoline prices for the first time in eight months, by some 3% and 5% respectively. This move had been anticipated, but the increase was generally seen as below market expectations, given that Chinese retail prices have only increased by some 20% since the start of 2005 while the international price of crude has risen by roughly 50%. There were reports of temporary inventory builds in anticipation of a large price increase, which had contributed to shortages in some areas and necessitated rationing. These shortages will likely dissipate as inventories are released/consumed following the price increases. Although the price increase was small, and more serious shortages could yet emerge, the move does bolster the incentive to supply the domestic market at the margin. There are indications that domestic refiners have raised crude runs in response, which should help boost apparent demand.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2004	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
LPG & Ethane	633	631	629	-2	-2	-0.3	-0.3
Naphtha	684	750	846	66	96	9.7	12.8
Motor Gasoline	1069	1092	1168	23	76	2.1	7.0
Jet & Kerosene	239	246	258	6	13	2.6	5.1
Gas/Diesel Oil	2150	2264	2418	114	154	5.3	6.8
Residual Fuel Oil	829	748	719	-82	-29	-9.8	-3.9
Other Products	828	857	911	28	54	3.4	6.3
Total Products	**6433**	**6587**	**6950**	**154**	**363**	**2.4**	**5.5**

Among the changes that may have a longer-term impact on the composition of the vehicle fleet are the adjustments to consumption taxes. Effective from 1 April, vehicles with larger engines will be taxed at a much higher rate than small vehicles. For example, vehicles with engines sized 1.0-1.5 litres will be taxed at 3%, 2.0-2.5 litres at 9% and above four litres at 20%. The government also plans to begin charging a consumption tax on fuel oil, jet fuel, naphtha and lubricants, as it already does for gasoline and diesel. However, only 30% of the tax will be charged initially and the tax on jet fuel will be suspended entirely to ease the burden on consumers.

Other Non-OECD

This month's Report begins to incorporate preliminary adjustments to historical non-OECD demand as data become available. The detailed product-level data extending through 2004 will be published in the 'Green Book' this August. As suspected, the updated data indicate that 2004 demand was underestimated in several key non-OECD consumers.

On the whole, non-OECD demand has been revised up by some 310 kb/d for 2004. There will be further revisions in coming months, but they are unlikely to be as large because the major consuming countries that had relatively incomplete data are incorporated here. In general, the revisions to historical demand have been extended through to the 2006 projections.

Among the largest revisions was to **UAE** demand, where the historical data series has been adjusted upwards, culminating in a 140 kb/d upward revision to 2004 oil product demand. Revisions to estimates of marine bunker demand account for a large part of the 2003-2004 adjustment. The 2004 demand of **Saudi Arabia**, **Kuwait**, **Syria** and **Yemen** have also been revised upwards, while **Iraq** and **Oman** have been adjusted downwards to a more limited extent. Overall, Middle East demand is revised up by some 200 kb/d for 2004, with year-on-year demand now estimated to have grown by 7.5%. Kuwaiti demand grew by some 11.6% in 2004 and Saudi Arabia 8.2%. For 2005 and 2006 the Middle East growth trajectory has also been revised upwards. Further revisions may be in order as 2004 demand data are finalised for additional countries.

Elsewhere, adjustments to **Indonesia** imply that oil product demand increased by an estimated 10.7% in 2004, well above projections based on economic growth of some 5%. A portion of this growth may be attributed to increased smuggling of subsidised products out of the country, which became more attractive as international market prices rose while domestic administered retail prices remained fixed well below international levels.

More recently, with a dramatic rise in retail prices in October 2005, Indonesia's demand declined substantially and remains weak. A significant part of the decrease in demand is likely due to a drop-off in the smuggling of products out of the country. Interestingly, there have been reports of some smuggling of subsidised diesel from nearby **Malaysia**, where retail prices are now said to be lower than Indonesia's. The smuggled volumes may be fairly limited, but it is indicative of shifts in the regional product market as countries adjust to the rise in international market prices at differing speeds.

India was one of the few non-OECD countries where 2004 demand was revised down (-30 kb/d) versus previous estimates. As a consequence, demand is now estimated to have grown by some 4.2% in 2004, revised down from 5.6%. Although overall demand growth was very weak in 2005 (0.5%), it

now appears that growth could be slightly stronger in 2006 (1.9%), albeit well below what might be anticipated given that the economy is expected to expand by over 7%. This recovery in oil demand is predicated upon slowing substitution of natural gas for naphtha and a recovery in diesel demand.

In February 2006, India's diesel demand grew by over 10% year-on-year. However, this was reportedly due to wholesaler and consumer inventory building prior to an anticipated March increase in administered prices that did not materialise. Year-on-year growth in diesel demand is expected to be weaker in March.

India Crude & Product Trade
(thousand barrels per day)

	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Nov 05	Dec 05	Jan 06*	Latest month vs. Dec 05	Latest month vs. Jan 05
Net Imports/(Exports) of:											
Crude Oil	1945	1927	1969	1894	1965	1882	1894	1908	2124	216	76
(by Public Oil Cos)	1158	1131	1133	1116	1112	1164	1211	1008	1271	263	123
Products & Feedstocks	-176	-123	-82	-92	-116	-201	-117	-286	-320	-34	-185
Gasoil/Diesel	-139	-139	-89	-108	-135	-224	-210	-238	-234	4	-100
Gasoline	-75	-24	-53	-39	-35	29	60	33	-80	-113	-9
Heavy Fuel Oil	-6	-5	-4	10	7	-34	-17	-52	-39	14	-36
LPG	86	98	95	74	98	126	139	102	104	3	-5
Naphtha	-7	-32	-15	-39	-28	-47	-28	-104	-20	84	3
Jet & Kerosene	-47	-34	-34	-5	-33	-63	-78	-39	-59	-21	-29
Other	12	14	17	15	10	13	18	13	8	-5	-9
Total	1769	1804	1887	1801	1849	1681	1777	1622	1804	182	-110

* Preliminary

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

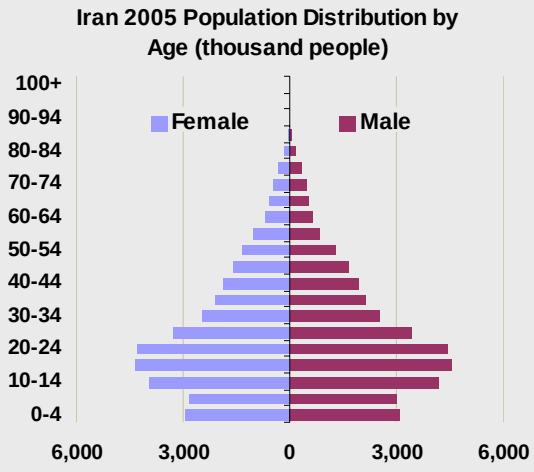
FSU apparent demand (crude production less crude and net product exports) is revised up by 100 kb/d for the first quarter of 2006 and 30 kb/d for the second quarter. Exports were lower than initially estimated, which is consistent with extraordinarily cold weather in January and February. There are anecdotal reports that Moscow power demand reached all time highs during this period. At the same time, a significant rise in household gas use cut gas supply to power stations, necessitating a sharp rise in the use of fuel oil and coal in power generation.

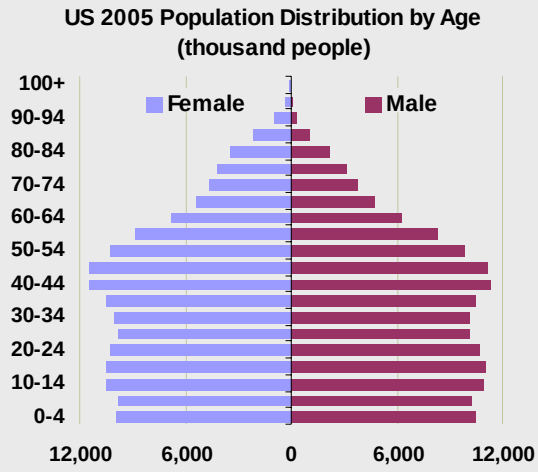
Demographics Help Drive Middle East Oil Product Demand Growth

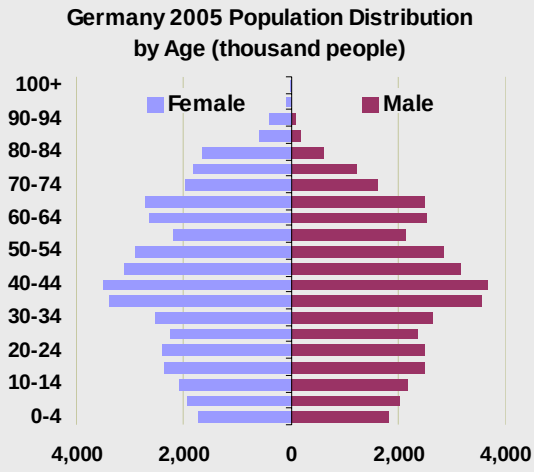
Given that Middle East economies are booming and their retail oil product prices are among the lowest in the world, it is certainly not surprising that the region is posting robust oil product demand growth. As an example, Iranian gasoline demand is reported to have increased by roughly 10-15% annually over the past several years. Iran is now said to be the second largest gasoline importer after the United States. This growth has had a major impact on regional trading patterns and is certainly affecting downstream development plans in the Middle East.

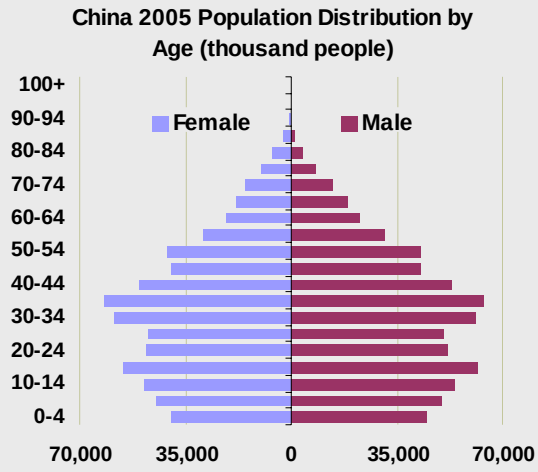
Aside from the impact of economic and price factors, it should be emphasized that the population's age structure is also affecting patterns of oil product demand growth. Normally the impact of population trends on oil demand would only be observed over the long term, but the growth in the driving age population in the Middle East is so pronounced that it is having an affect even in the short- to mid-term. Whereas in Germany, there are slightly fewer 15-19 year-olds than there are 60-64 year olds, in Iran the ratio is 7:1. This translates into many new Iranian drivers taking to the road each year. The 20-64 age group is growing by an impressive 4.0% annually in Iran versus a decline of -0.1% in Germany.

While some lower income countries in other parts of the world have similar population structures, the Middle East is unique in that its population is very young and at the same time it is relatively well-off. As long as oil prices remain high, thereby supporting economic growth, and retail prices for oil products remain artificially low, demographic factors will continue to underpin Middle Eastern demand growth.







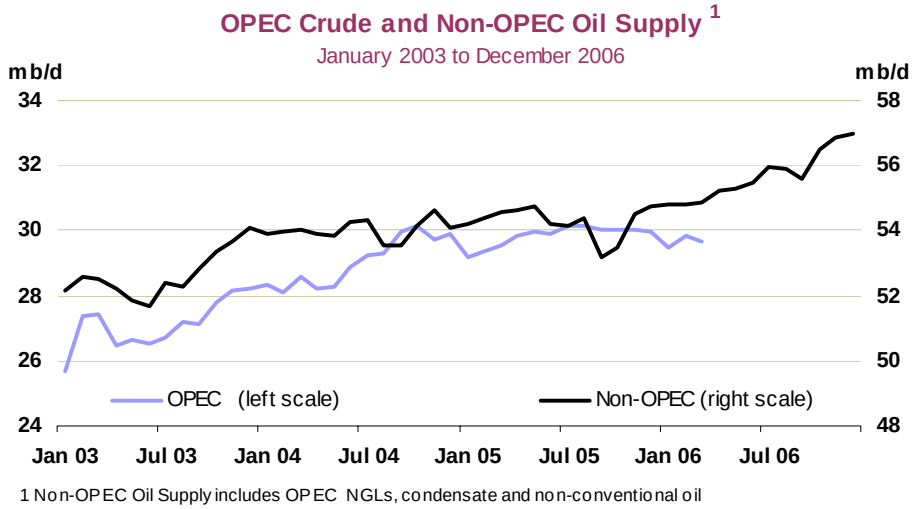


Source: United Nations – World Population Prospects

SUPPLY

Summary

- **World oil supply** declined by 125 kb/d in March from February, to average 84.5 mb/d. December and January baseline data were revised up by 55 kb/d and 135 kb/d respectively but the February estimate was largely unchanged at 84.6 mb/d. Lower oil supplies in March from Alaska, Canada, the UK, China and OPEC crude were only partly offset by higher FSU, Latin American, non-OPEC Middle East and African production.
- **Unscheduled outages** continue to hamper oil supply, with security-related disruptions in Nigeria and Iraq the most prominent. Elsewhere, stoppages are deferring into the second half of 2006 an expected resurgence in non-OPEC growth. After decline in the second half of 2005, non-OPEC growth resumed in 1Q 2006, albeit at levels below the 1 mb/d-plus evident in the three years through 3Q 2004. Weather-related outages have hit supply from the US, Mexico, Russia, Kazakhstan, the North Sea and Australia. Mechanical problems, start-up delays, strikes or weather have afflicted Argentina, Brazil, Ecuador, Bolivia, Peru, Canada, India, Vietnam, Sudan, Chad and Yemen. These factors underpin the Report's proviso that annual non-OPEC supply can underperform versus forecast by 300-400 kb/d. There is also growing industry concern that shortages in drilling equipment, technically qualified personnel and service company capacity may impede capacity growth over the next two to three years.
- **The non-OPEC supply** estimate for 2005 remains unchanged at 50.1 mb/d, flat versus 2004. A 35 kb/d downward revision is applied to 2006, but non-OPEC supply nonetheless rebounds to 51.3 mb/d this year. Weaker performance is now expected from Canada, Norway, Australia, Russia, Brazil and Angola in the first six months of 2006. This is partly offset by a stronger expectation for the latter half of the year. The FSU, Africa, Canada and Latin America drive expected 2006 growth. OPEC NGL supply rises a further 275 kb/d, after 245 kb/d growth in 2005.
- **OPEC crude supply** for February was revised up 225 kb/d on evidence of sharply higher Iranian exports. Supply in March is assessed off by 215 kb/d versus February at 29.7 mb/d. Production shut-ins in Nigeria accounted for 195 kb/d of the decline, with lower supply also seen from Iran, Venezuela and Iraq, the latter due to weather-related export delays. Modest increases in supply were seen from the UAE, Saudi Arabia, Indonesia and Libya. Export potential for both Nigeria and Iraq is likely to remain constrained in the short term. Despite upward revisions to Saudi and Libyan capacity, effective spare capacity amongst OPEC members remains thin at 1.7 mb/d.
- **The 'call on OPEC crude and stock change'** is revised up, largely on the basis of higher demand estimates for the Middle East and Asia Pacific, which boost global demand by 0.3 mb/d for 2004-2006. Non-OPEC supply outages in the first half of 2006 also play a role. The call now averages 30.4 mb/d for first quarter 2006, some 700 kb/d above prevailing OPEC crude supply. The second quarter call dips to 28.4 mb/d, before rising seasonally to 29.8 mb/d by the end of the year. The 2006 call averages 29.4 mb/d versus 29.3 mb/d in 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, Egypt and Russia are supported by preliminary March 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 for February was revised up 225 kb/d on evidence of sharply higher Iranian exports. Venezuelan heavy crude upgrader maintenance, previously expected to curb January/February supply, was deferred into March, also raising February's supply estimate. OPEC supply in March is assessed at 29.7 mb/d, a decline of 215 kb/d for the month. Nigerian production shut-ins accounted for 195 kb/d of the decline, with lower supply also seen from Iran, Venezuela and Iraq. Taking Iraqi supply as a proxy for production, weather-related export delays at the end of the month offset higher domestic crude use. Modest increases in March supply were seen from the UAE, Saudi Arabia, Indonesia and Libya.

Geopolitical uncertainties are frequently cited as a key driver of current high prices (although it can be argued the linkage also works in reverse). Much speculation has surrounded the possible impact of outages in Iran and Venezuela, although for now these remain potential, rather than actual, supply disruptions. As noted below, real supply outages and delays have had at least as great an impact on the non-OPEC producers. Notwithstanding, with ongoing attacks on supply infrastructure in Iraq and Nigeria, OPEC supply from these two producers alone is probably 750 kb/d to 1.0 mb/d lower than might have been expected a few months ago. Furthermore, export potential for both Nigeria and Iraq is likely to remain constrained in the short term.

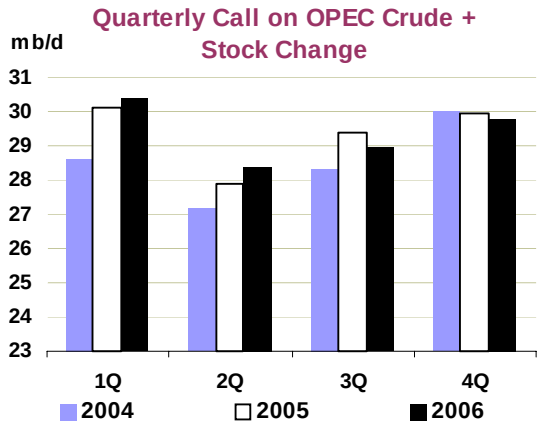
This would be less of an issue for the market were sufficient spare capacity available elsewhere in the system. However, despite upward revisions to Saudi and Libyan capacity this month, effective spare capacity amongst OPEC members remains thin at 1.7 mb/d. This Report has previously noted that, aside from physical capacity constraints amongst other producers, Iran, Kuwait and Saudi Arabia have also faced difficulties in selling incremental volumes due to quality constraints. There is however some comfort to be obtained from the fact that OPEC capacity additions in 2006 are focussed on lighter/sweeter grades.

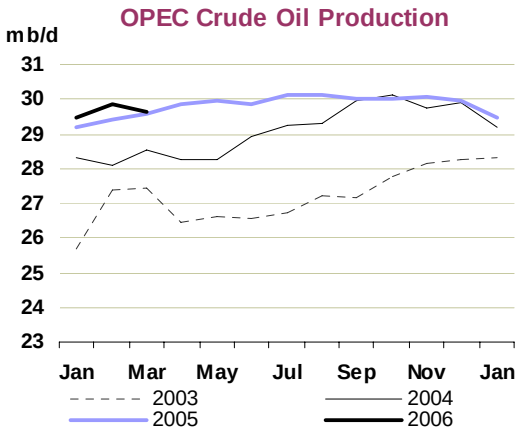
OPEC Crude Production
(million barrels per day)

	1 July 2005 Target	March 2006 Production	Sustainable Production Capacity[1]	Spare Capacity vs March 2006 Production	Production vs. Target
Algeria	0.89	1.36	1.37	0.01	0.47
Indonesia	1.45	0.93	0.98	0.05	-0.52
Iran	4.11	3.82	4.00	0.18	-0.29
Kuwait[2]	2.25	2.51	2.60	0.09	0.26
Libya	1.50	1.68	1.70	0.02	0.18
Nigeria	2.31	2.08	2.60	0.53	-0.23
Qatar	0.73	0.82	0.83	0.01	0.09
Saudi Arabia[2]	9.10	9.50	10.80	1.30	0.40
UAE	2.44	2.55	2.65	0.10	0.11
Venezuela[3]	3.22	2.60	2.75	0.15	-0.62
Subtotal	**28.00**	**27.84**	**30.28**	**2.43**	**-0.16**
Iraq		1.81	2.50	0.70	
Total		**29.65**	**32.78**	**3.13**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.71)*	

1 Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Includes Orinoco extra-heavy oil assumed at 590 kb/d in March

OPEC ministers are next due to meet in Caracas on 1 June. Recent ministerial statements have suggested that, at least on the surface, OPEC is comfortable with prices in a high-$50s'/low-$60s' range and reportedly considers such levels sufficient to sustain upstream investment while avoiding damage to global economic growth. This risks confusing market contango and the rising call for stocks with genuine resilience in end-user demand to high prices. While domestic demand growth within the Middle East looks robust, this in part is built on surging revenues and subsidised domestic prices. Asian demand growth in contrast has begun to weaken as price subsidies have been removed. Nor should the rising tide of calls in OECD countries for supply security, conservation and diversity of energy supplies, themselves prompted by high prices, be overlooked. Calls by OPEC representatives for a forward-looking demand road map in order to justify future OPEC capacity expansions may signal a realisation that current prices do indeed curb demand growth. OPEC's attainable price aspiration for the medium term may therefore be more modest than recent statements suggest.



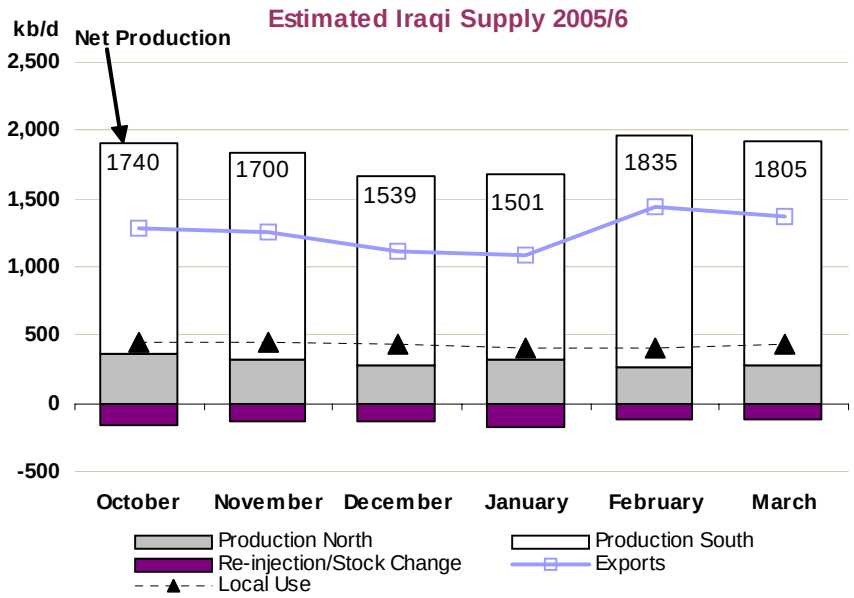


Nigerian crude supply in March fell by some 0.2 mb/d, to less than 2.1 mb/d. Neither the more optimistic ministerial expectations of supply recovery, nor the targets of expanded sabotage put forward in early March by the Movement for the Emancipation of the Niger Delta (MEND) proved much of a guide to production for the month as a whole. At peak, some 630 kb/d of Nigerian production was shut-in during March. This followed the loss of 75 kb/d of Agip Brass River production from mid-month after a sabotage attack on a pipeline. Agip's losses augmented existing shut-ins centred on Shell's Forcados and offshore EA facilities. However, offsetting increases in supply were seen from deepwater fields, so far immune from the ethnic unrest and violence that has curbed onshore and shallow water output. Shell's Bonga field was reportedly producing between 100-150 kb/d (less than estimated last month) while ExxonMobil began new production from the Erha facilities in late March at around 50 kb/d. The two fields are seen likely to reach production levels at or above 200 kb/d each later in 2006.

Hostage releases, proposals from the government regarding an increase in the shares of oil revenue allocated to regional government and the restart of Agip production raised hopes of rising Nigerian supply earlier in March. This optimism however gave way to more sober assessments in late March and early April. The security situation remains sufficiently precarious that Shell and other producers are non-committal about the timing for restarting production of some 550 kb/d still closed as a result of the recent actions. Chevron still has some 50-100 kb/d of Niger Delta production shut following ethnic attacks in March 2003.

February's increase in net **Iraqi supply** proved short-lived, and March supply is estimated at 1.8 mb/d, down by 30 kb/d from February. Domestic crude use in refineries and for power generation is estimated up by 35 kb/d at 435 kb/d. Strong export performance early in March slipped towards the end of the month as bad weather impeded loadings at the southern ports of Basrah and Khor al-Amaya. In all, exports for the month are assessed at 1.37 mb/d versus 1.44 mb/d in February. Southern exports accounted for all of the liftings, with both deliveries north to Ceyhan in Turkey and minimal cross border volumes to Syria, stalled in March. Indeed, Oil Minister Hashem al-Hashemi said in late March that destruction of the main pipeline manifold for the northern export route likely means there will be no northbound shipments for eight to 12 months. Storage tanks at Ceyhan are believed to hold around 3 mb of Iraqi crude.

The apparent loss of the northern export route would seem to undermine claims from the Oil Ministry that a target of 3.0 mb/d for production is attainable by the end of 2006. Current southern export capacity is around 2.0 mb/d and domestic crude off-take is at best 500 kb/d. A significant increase in southern export capacity or national refinery operating rates would therefore be required, in the absence of northern exports, before field output could attain 3.0 mb/d.



Volatility in monthly **Iranian** export levels, which last month caused a downward revision in January's crude supply estimate, moved in the opposite direction for February. Exports are now believed to have rebounded above 2.4 mb/d in February, giving a net supply figure of 3.9 mb/d compared to the 3.7 mb/d level in last month's Report. Preliminary indications suggest slightly lower March exports and ongoing refinery outages (Tehran in February and Abadan in March), so the March supply estimate drops to 3.8 mb/d. Further potential volatility in short-term export trends derives from reports that NIOC is holding over 13 mb of difficult to sell Soroush/Nowruz crude in offshore storage.

The new Oil Ministry team in Iran is reviewing the widely criticised 'buy-back' contracts under which foreign firms operate in the Iranian upstream. Long delays in activating headline expansion projects, including those for the Azadegan and Yadavaran fields, are in part due to the unattractive terms under the buy-back contracts. However, contract terms have now likely been overtaken by the geopolitical uncertainty surrounding Iran's nuclear programme in deferring the investments needed to offset Iran's mature field decline.

Production from the **UAE** in March is assessed up by 85 kb/d from February at 2.55 mb/d. This results from a gradual post-maintenance recovery for Murban grade crude. There has been speculation however that weak Murban prices and the onset of second quarter Asian refinery maintenance may curb further increases in UAE supply in the short term.

Saudi Arabian supply for March is estimated up by 50 kb/d at 9.5 mb/d. As indicated last month, new production of Arab Light crude from the Haradh expansion reached 300 kb/d in March. Saudi crude capacity has been revised up to 10.8 mb/d with signs that a substantial rise in drilling levels is helping to make this capacity largely incremental on a net basis. The impact on actual production may however have been limited, with new volumes of Arab Light substituting for the shut-in of heavier grades. Neither official Saudi statements on prevailing output nor indications from provisional tanker data suggest an increase in March production to match the increase in capacity.

Venezuelan crude supply (including feedstock to the country's four Orinoco heavy oil upgraders) fell modestly by 40 kb/d to 2.6 mb/d in March. This was the result of curbed heavy crude output following the shut-down in March of the Cerro Negro upgrader for maintenance (previously scheduled for January).

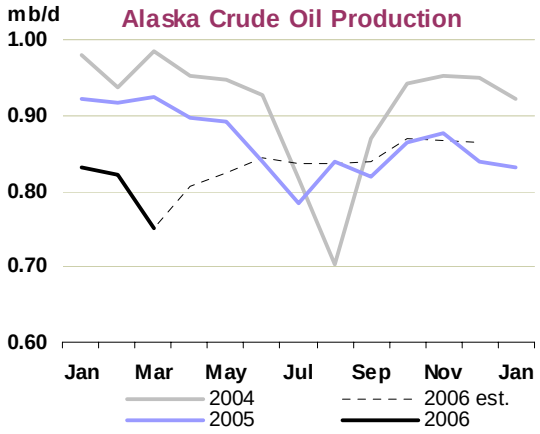
This operational dip in Venezuelan supply was temporary, but longer standing concerns persist as to the worsening investment environment for foreign upstream operators. Total, Statoil and ENI have relinquished involvement in certain oilfields after being ordered to convert operating service agreements to minority joint ventures with state oil company PDVSA. Separately, the four Orinoco joint venture projects have seen income tax and royalty rates progressively rise from the levels set to encourage development in the 1990s, and there are suggestions that expansion plans are stalled for now. The government has levied back tax claims on certain companies accused of overproducing versus contract. It is also demanding investment to boost single digit recovery rates from Orinoco fields nearer to 20%.

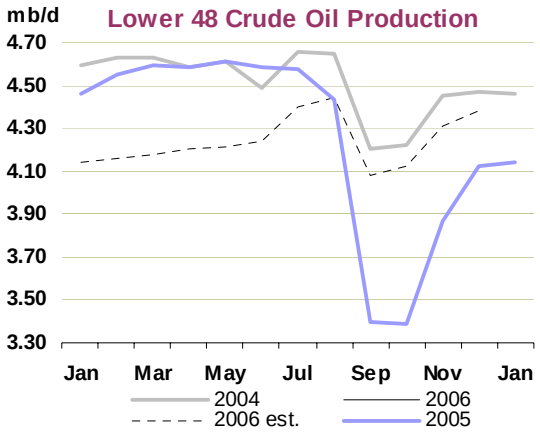
OECD

North America

US – March Alaska actual, others estimated: Data for Alaska and the US Gulf of Mexico (GOM) suggest total US oil supply has levelled off at 7.1 mb/d (with around 4.9 mb/d of crude) since January. Some recovery in NGL supply after the extensive gas production and gas processing outages following last year's hurricane season has materialised. However, March saw renewed problems facing Alaskan Prudhoe Bay output and an apparent stalling in post-hurricane GOM crude recovery.

Alaskan crude production fell by 70 kb/d in March due to an oil spill at Prudhoe Bay Gathering Centre 2. The spill of 200,000 gallons was discovered on 2 March. Some 100 kb/d of production was shut-in while clean-up was undertaken, although this process was initially delayed by cold weather. BP aims to have 50-75 kb/d of production reinstated by late April. This Report assumes a diminishing impact on production running into May. The spill may result in Alaskan authorities requiring more frequent pipeline inspections.





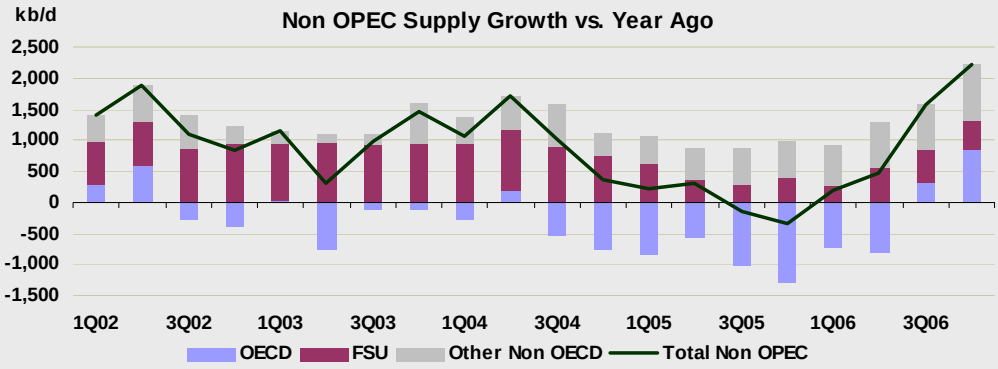
The US Minerals Management Service (MMS) reported on 5 April that 340 kb/d of oil production remained shut-in following Hurricanes Katrina and Rita. This Report assumes a similar outage level for March as a whole, with shut-ins falling to 300 kb/d for April and 200 kb/d by June. Despite the slow progress in further recovering supply shut due to storm damage, consolidated US monthly state data through November 2005 have shown higher levels of total production than initially indicated by damage reports. This applies to the Federal waters of the GOM and to Louisiana state production. It is possible therefore that regional supply for early 2006 may be subject to upward revision in months to come if this trend continues. It also suggests either that offsetting increases from new fields are coming in higher than expected or that initial damage recovery estimates are overly conservative.

Canada – Newfoundland February actual, others January actual: Provisional indications are that Canadian liquids production has slipped from 3.4 mb/d in December to 3.1 mb/d in March. Weather-related loading delays and mechanical problems at the Terra Nova field have affected offshore Newfoundland supply. Production at Shell's Athabasca Oil Sands Project in Alberta was also adversely affected in February and March by conveyor belt problems. However, repairs have been completed faster than expected in last month's Report, allowing an 85 kb/d upward revision to April synthetic crude output. Weaker first half 2006 performance outstrips a now-stronger outlook for NGL and Saskatchewan production, leaving the Canadian supply forecast for 2006 at 3.25 mb/d, some 25 kb/d below last month's forecast. Conventional crude comprises 1.9 mb/d of the total.

Unscheduled Outages Defer Non-OPEC Rebound

While the market has lately focussed on actual or potential outages facing Nigeria, Iraq, Iran and Venezuela, non-OPEC supply too has been badly hit over the past six months. Unscheduled stoppages continue to hamper supply and are deferring into the second half of 2006 an expected resurgence in non-OPEC growth. Weather-related outages have hit the US and Mexico (Hurricanes Katrina and Rita), Russia and Kazakhstan (exceptional cold in January and February), the North Sea (loading delays) and Australia (cyclones). Weather plus mechanical problems, start-up delays and strikes have affected Argentina, Brazil, Ecuador, Bolivia, Peru, Canada, India, Vietnam, Sudan, Chad and Yemen.

These factors underpin the Report's proviso that annual non-OPEC supply can under-perform vs. forecast by 300-400 kb/d. However, rather than allocating an arbitrary adjustment factor in advance to forecast non-OPEC supply, this Report assumes normalised operating conditions and seasonal average outages. Information on new field delays, extended maintenance and 'force majeure' type stoppages is incorporated as and when it becomes available. This results in an evolutionary supply forecast, changing as the latest and updated information is incorporated.

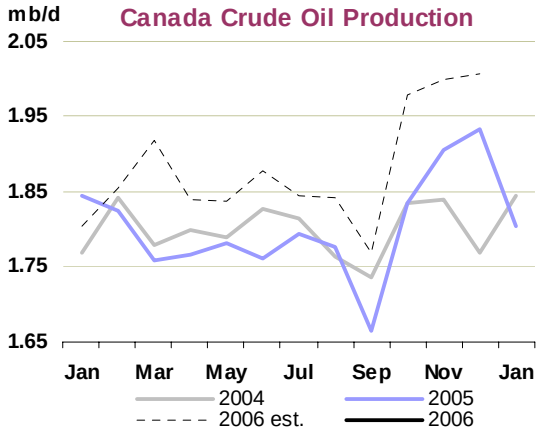


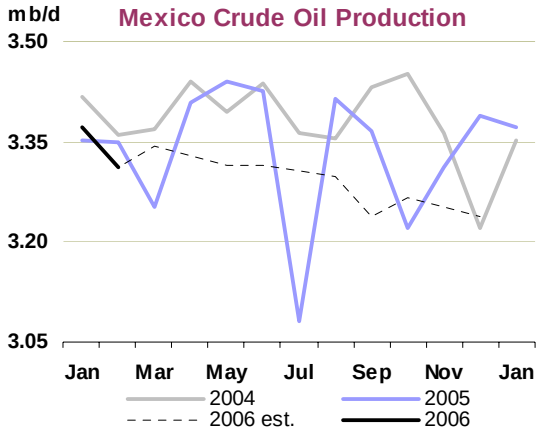
It is important to distinguish between systematic and exceptional supply shortfalls for a given year. Supply in 2005 fell short of expectation by over 1 mb/d. The intensity of the 2005 US GOM hurricane season knocked 0.5 mb/d off the 2005 forecast, a degree of stoppages, statistically at least, unlikely to recur in 2006. The dismantling of two of Russia's key independent oil producers likely cost another 200 kb/d. Delays in new field start-ups in 2005 cost a further 400-500 kb/d versus initial projections, affecting Brazil, Sudan, the US Gulf, the North Sea and Yemen amongst others. A fourth element was a proliferation of mechanical problems. Contrary to popular opinion these four factors, rather than accelerating decline rate, underpinned the non-OPEC 'shortfall' in 2005.

New field delays and a rise in mechanical outages present perhaps the greatest threat to the non-OPEC forecast for 2006 and beyond, although it is too early to comment on regional or project-specific trends and causes. Nonetheless, there is a growing industry consensus that shortages in drilling equipment, technically qualified personnel and service company capacity may impede capacity recovery over the next two to three years at least. Upcoming mega-projects including Cepu in Indonesia, Azadegan in Iran and Kashagan in Kazakhstan have all been delayed by technical difficulties, equipment shortages and cost escalation, not to mention bureaucratic issues. As it is difficult to know in advance which projects will 'fly' and which will be delayed, the Report avoids the 'top-down' forecasting temptation to apply an arbitrary adjustment factor. Furthermore, the longer high prices last, the greater the potential that higher spending will translate into higher volumes in the medium term.

Whilst acknowledging real downside risks for the supply forecast, a proliferation of projects due onstream during 2006-2008, many close to completion, suggests that non-OPEC supply growth will rebound from the lows of 2005. Despite a disruption-strewn first quarter, non-OPEC supply recovered from the declining trend evident in the second half of 2005. Further acceleration in growth is expected through 2006, in itself not surprising given the very weak 2005 baseline.

Chevron reported in early April that it was pulling out of the 175 kb/d Hebron project offshore Newfoundland after failing to reach agreement on fiscal terms with the provincial authorities. Despite recent negative developments, Canada remains one of the key growth areas for non-OPEC supply. Canadian supply this year is expected to show growth of 200 kb/d versus 2005 based on bitumen, syncrude and offshore east coast crude expansion. Average supply for 2006 is expected at 3.25 mb/d.



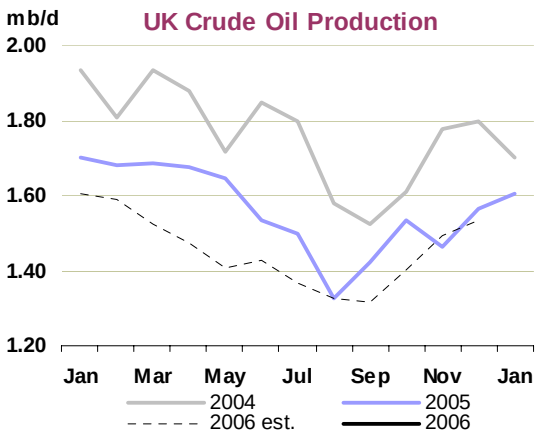


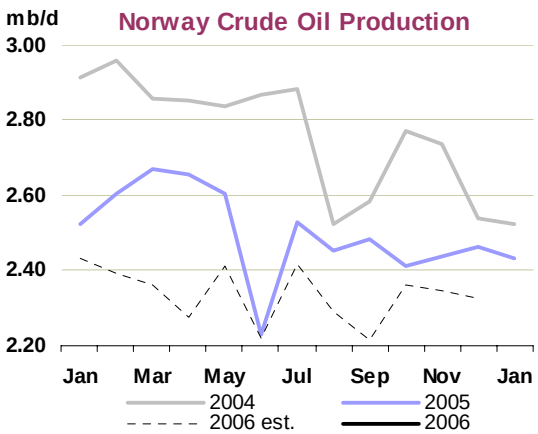
Mexico – February actual: Mexican February crude production fell 60 kb/d to 3.3 mb/d, with NGL output broadly stable at 435 kb/d. Crude exports were down versus January by a more pronounced 85 kb/d. Shipments of heavy Maya crude were reduced although there was evidence of rising volumes of lighter Mexican crude imported by North America.

State company Pemex reported in March that proven reserves of hydrocarbons fell by 1 billion bbls in 2005 to 11.8 billion bbls. However, the company also announced a deepwater discovery in the Mexican section of the Gulf of Mexico which it says could potentially hold 10 billion bbls of reserves. Debate continues in Mexico on whether the hydrocarbon sector should be opened up to foreign capital and technology to allow the accelerated appraisal and development of such deepwater prospects. Pemex suggested national crude production will stabilise around 3.4 mb/d for 2006 and 2007. However, based on the recent production trend and an absence of new field completions in the short term, this Report assumes a slightly lower profile, with crude output averaging 3.3 mb/d in 2006.

North Sea

Norway – January actual, February provisional: Early 2006 Norwegian crude supply continues to be subject to downward revision. This follows the spate of unscheduled outages resulting from design problems on gas flaring equipment originally identified at the Visund field. March saw related outages of up to four days affecting the Ekofisk, Troll, Valhall, Hod, Gyda, Ula and Tambar fields for an average March supply loss of 60 kb/d. The Visund field itself is not now expected to restart until mid-June, a month later than earlier assumed.



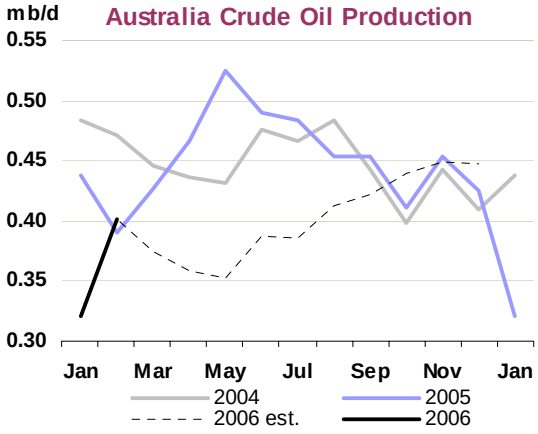


Unlike unscheduled outages, the emerging profile for scheduled Norwegian oilfield maintenance in 2006 suggests lower shut-ins than previously forecast by this Report. Work on the Troll and Stafjord systems will be much heavier than expected in April at some 150 kb/d. Outages thereafter amount to 100-200 kb/d in June, August and September. Projected supply in 3Q 2006 in particular now looks much stronger than in last month's Report. NGL and condensate production is also running ahead of expectations, resulting in a 30 kb/d upward revision for 2006. Stronger gas liquids performance (with output potentially increasing 90 kb/d to 550 kb/d) partly offsets an expected 170 kb/d drop in Norwegian crude this year. Annual liquids supply averages 2.9 mb/d.

UK – January actual: UK offshore crude supply increased by 40 kb/d in January to 1.6 mb/d, with onshore supply and NGL production giving a total liquids level of 1.9 mb/d. This was the highest production seen since May 2005, with extended maintenance and unscheduled outages depressing production for much of 2005. On the downside, a fire affecting the Tern, Kestrel and Hudson fields in the Brent system will cut March and April supply by some 10 kb/d. In contrast, market expectations are for lower levels of scheduled maintenance in 2006 than in 2005, although operators in the UK sector of the North Sea, unlike their Norwegian counterparts, rarely publish details of maintenance schedules in advance. There may therefore be some upside to UK supply if actual outages come in lower than the seasonal average maintenance assumptions employed in this Report. Some 10 new field starts in 2006, including an initial 100 kb/d from the Buzzard field by the end of the year, also contribute to a halving of the 200 kb/d production declines seen from the UK in the past three years.

Pacific

Australia – February actual: February saw an easing of the impact of cyclones on northwest Australian offshore production compared to January. However, continuing precautionary shut-ins have been assumed for the period through May. A control line failure at the Woolybutt field also curbed supply there by some 10 kb/d in March. These outages, together with lower operating levels at the Mutineer field, now look likely to hold Australian crude production below 400 kb/d through mid-year. Recovery towards 450 kb/d in the second half of the year is based on new start-ups including those at the Enfield, Puffin and Cliff Head fields. Natural gas liquids contribute a further 100 kb/d to Australian oil supply. The government sees total liquids output rising towards 550 kb/d by 2008, with new field developments such as Vincent and Stybarrow, before declining again later in the decade.



Former Soviet Union (FSU)

Russia – February actual, March provisional: Forecast Russian supply growth for 2006 has been trimmed to 2.8%, or 265 kb/d, implying annual average production of 9.75 mb/d. February and March data came in some 50 kb/d below expectation, although this was in part due to the impact of exceptionally cold January/February temperatures on producing facilities in western Siberia. March production did show some improvement, up by some 110 kb/d from depressed February levels. Nonetheless, compared to last month's Report, modest downward adjustments are applied to Sibneft 2006 supply and to the output levels expected from the Production Sharing Agreements at the Chaivo (Sakhalin I) and Kharyaga fields.

Set against this is an upward adjustment to expected Yukos production for 2006. This Report previously assumed that output from Yukos in 2006 would replicate the 20%-plus decline seen for 2005 as a whole. While an impending move into administration at Yukos might argue in favour of retaining a conservative outlook for production, eight months of broadly flat output suggest that the pace of earlier sharp decline has indeed moderated. State-sponsored producer Rosneft is seen as the most likely to take over Yukos assets, and has ambitious plans to expand liquids production in 2006. Although some have questioned the viability of Rosneft's production growth targets, a loosening of some of the financial constraints on Yukos' producing assets provides some upside potential. This Report now adopts a shallower assumed decline for Yukos production, at 15% year-on-year, or 9% measured from December 2005 to December 2006. Clearly, significant uncertainty surrounds any forecast of Yukos supply until its financial and organisational future becomes clearer.

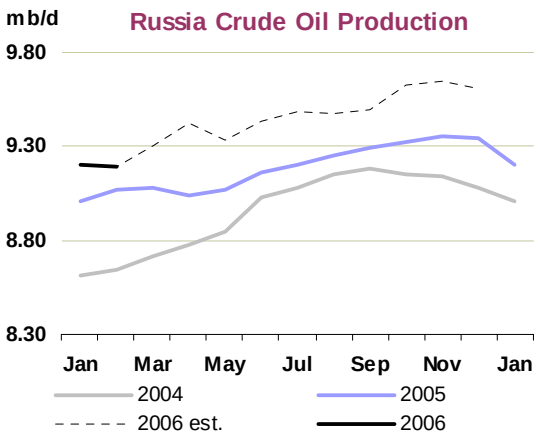
FSU Net Exports of Crude & Petroleum Products
(million barrels per day)

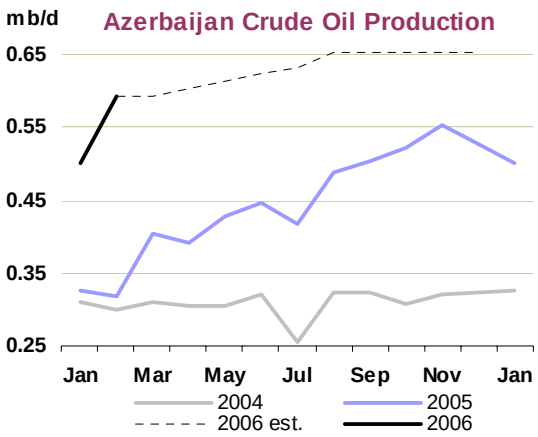
	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Dec-05	Jan-06	Feb-06	Latest month vs. Jan-06	Latest month vs. Feb-05
Crude											
Black Sea	2.20	2.27	2.22	2.38	2.30	2.23	2.18	2.03	2.28	0.25	0.07
Baltic	1.51	1.59	1.64	1.61	1.57	1.55	1.60	1.48	1.56	0.08	-0.22
Artic/FarEast	0.25	0.19	0.19	0.19	0.22	0.17	0.15	0.09	0.07	-0.02	-0.17
Crude Seaborne	3.96	4.05	4.04	4.18	4.08	3.95	3.94	3.59	3.90	0.31	-0.31
Druzba Pipeline	1.10	1.15	1.13	1.10	1.14	1.23	1.26	1.20	1.21	0.02	0.03
Other Routes	0.23	0.25	0.24	0.26	0.24	0.26	0.28	0.28	0.33	0.05	0.05
Total Crude Exports	5.29	5.45	5.41	5.54	5.46	5.44	5.48	5.07	5.45	0.38	-0.23
Of Which: Transneft	3.76	4.20	4.01	4.26	4.26	4.32	4.41	4.17	4.40	0.22	0.27
Products											
Fuel oil	0.90	0.93	0.78	0.91	1.02	1.04	1.11	0.92	0.73	-0.19	-0.08
Gasoil	0.84	0.87	0.89	0.80	0.85	0.95	1.05	1.00	1.04	0.04	0.06
Other Products	0.46	0.58	0.58	0.56	0.58	0.60	0.58	0.62	0.60	-0.02	-0.06
Total Product	2.19	2.38	2.25	2.27	2.45	2.58	2.74	2.54	2.37	-0.17	-0.08
Total Exports	7.48	7.83	7.66	7.81	7.91	8.02	8.22	7.61	7.82	0.21	-0.31
Imports	0.01	0.02	0.01	0.01	0.02	0.02	0.01	0.03	0.01	-0.02	0.00
Net Exports	7.47	7.81	7.64	7.80	7.89	8.00	8.21	7.58	7.80	0.23	-0.31

Sources: Petro-Logistics, IEA estimates

FSU net exports bounced back in February from the effects of freezing temperatures in January that restricted both Russian and Kazakh supplies. Net exports increased by more than 200 kb/d to reach 7.8 mb/d, although crude and products shipments moved in opposite directions. Black Sea crude exports increased by 250 kb/d month-on-month. Although crude sales via other routes were also up versus January, northerly seaborne loadings and deliveries into central Europe via the Druzhba pipeline remained below 2005 highs. Fuel oil and gasoil shipments remained constrained in February by stronger local demand. In all, February products exports fell 170 kb/d to 2.37 mb/d. Preliminary indications suggest that higher products exports in March and April may push total FSU net exports higher by some 100-200 kb/d combined. Higher crude export duties from early April and lower export allocations for the month suggest Russian crude exports flattening off for now. The Russian authorities are clearly trying to encourage exports of higher value-added oil products over crude. However, slow progress in upgrading Russian refineries to boost distillate yields at the expense of heavy fuel oil may limit this trend.

Mixed progress was evident in March concerning expansion of FSU crude export capacity. Russia's energy minister reported that the Baltic Pipeline System feeding the northern port of Primorsk has now reached nameplate capacity of 1.31 mb/d. A change in management structure in favour of Russia also opens the way for a previously deadlocked expansion of the Caspian Pipeline Consortium (CPC) pipeline from 600 kb/d to 1.35 mb/d by late 2007. Although the Kazakh President claimed agreement on this after a meeting with Russia's President Putin, it is not clear whether Russia's linkage of the project to the simultaneous construction of a Turkish Straits bypass line remains a sticking point. Either way, it is uncertain that expansion will be completed in time to accommodate higher Tengiz field output from 2007. There were market reports that the latest delay in completing the Baku-Tbilisi-Ceyhan (BTC) pipeline may defer first tanker liftings from June to August. For now however the delays have not impeded production from Azerbaijan's offshore ACG fields, where production has doubled to 400 kb/d in the past year using alternative Black Sea export routes.

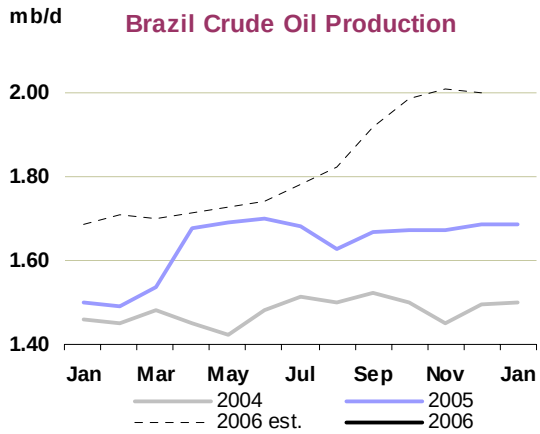


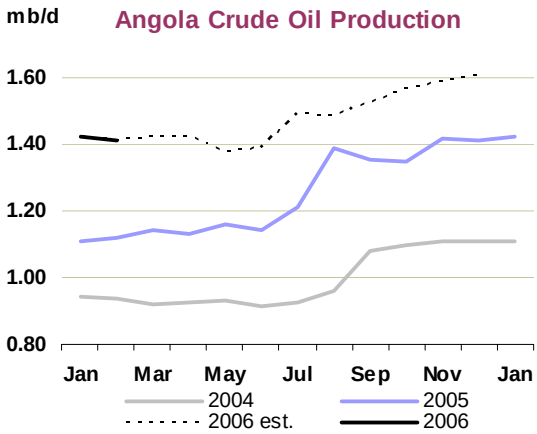


Azerbaijan – February actual: February production data bear out the fact that slow progress in completing the BTC export line is not for now impeding supply growth from Azerbaijan (see above). While state producer SOCAR has seen stable 180 kb/d production for many months, the BP-led AIOC consortium has increased offshore Caspian production from 150 kb/d to 400 kb/d in 12 months. As well as providing line fill for the 1 mb/d BTC line, most of the rising volumes of supply from the Azeri and Chirag fields have been exported via the Black Sea ports of Supsa, Batumi and Novorossiysk. AIOC production is seen reaching 475 kb/d by the end of the year, taking total Azerbaijan output to 660 kb/d. AIOC sellers are reported to be increasingly turning towards lucrative Asian sales at the expense of an over-supplied Mediterranean market.

Other Non-OPEC

Brazil – January actual: A modest 5-10 kb/d downward revision to 2005/2006 Brazilian liquid fuel supply is restricted to alcohol fuels. Latest expectations for fuel ethanol production envisage supply of 265 kb/d and 275 kb/d respectively in 2005 and 2006. Indications for January and February crude supply show production running on trend with this Report's projections at some 1.7 mb/d. In all, Brazilian crude production is expected to rise by 185 kb/d in 2006 after a 155 kb/d increase in 2005, and average 1.82 mb/d. Deepwater increments centred on the Golfino, Albacore Leste, Marlim Leste, Jubarte and Piranema projects drive the increase in 2006 production.





Angola – February actual: Angolan production is revised down by 50 kb/d for 2Q 2006 after reports of maintenance work affecting offshore fields. A one week maintenance outage at Total's 45 kb/d Block 3/85 in April will be followed by two weeks of work which is likely to trim Girassol May/June supply by 70 kb/d. An otherwise unchanged Angolan forecast sees deepwater increments from the Dalia and Benguela/Belize fields contributing to a second year of 250 kb/d output growth. Total production averages 2.2 mb/d in 2006 after 1.9 mb/d in 2005.

Revisions to Other Non-OPEC Estimates

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	14.07	14.30	0.23	14.09	14.25	0.17	0.01	-0.05	-0.06
Europe	5.64	5.39	-0.25	5.64	5.41	-0.23	0.00	0.03	0.03
Pacific	0.58	0.57	-0.02	0.58	0.55	-0.04	0.00	-0.02	-0.02
Total OECD	**20.30**	**20.26**	**-0.04**	**20.31**	**20.22**	**-0.10**	**0.01**	**-0.04**	**-0.05**
Former USSR	11.64	12.10	0.46	11.63	12.09	0.46	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	3.66	0.04	3.62	3.68	0.06	0.00	0.02	0.02
Other Asia	2.73	2.80	0.07	2.73	2.80	0.08	0.00	0.00	0.00
Latin America	4.29	4.49	0.20	4.28	4.48	0.19	-0.01	-0.01	0.00
Middle East	1.83	1.79	-0.04	1.83	1.80	-0.03	0.00	0.01	0.01
Africa	3.67	4.14	0.47	3.67	4.13	0.46	0.00	-0.01	-0.01
Total Non-OECD	**27.93**	**29.13**	**1.20**	**27.93**	**29.14**	**1.21**	**-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	**50.10**	**51.29**	**1.19**	**50.10**	**51.25**	**1.15**	**0.00**	**-0.04**	**-0.04**

OMR = Oil Market Report

OECD STOCKS

Summary

- **OECD total industry oil stocks** fell by 13 mb in February as draws in product stocks largely outpaced builds in crude inventories. Increases to crude stocks were centred in the US and to a lesser extent in the Pacific. Total product inventories fell by 24 mb, with draws in distillate stocks in the Atlantic Basin and in 'other products' in the US. Upward revisions to January preliminary data put total inventories at 2616 mb, 46 mb above last year. On a forward demand basis, OECD total oil stocks came to 53 days, one day higher than last year and last month.

Preliminary Industry Stock Change in February 2006 and Fourth Quarter 2005

(million barrels per day)

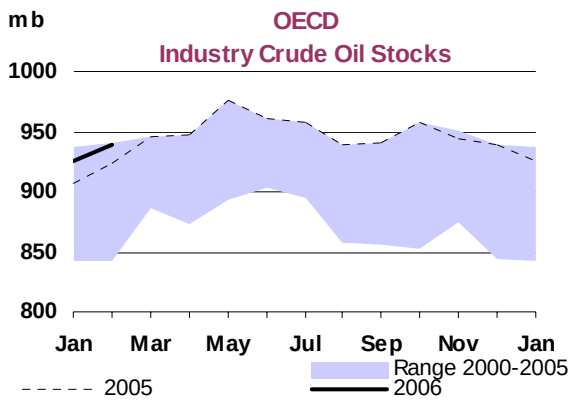
	February (preliminary)				*Fourth Quarter 2005*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.44**	**-0.16**	**0.19**	**0.47**	**0.22**	**-0.13**	**-0.12**	**-0.02**
Gasoline	0.05	0.01	0.02	0.08	0.08	0.09	0.00	0.17
Distillates	-0.22	-0.26	0.01	-0.47	0.16	-0.04	-0.18	-0.06
Residual Fuel Oil	0.03	-0.13	-0.01	-0.11	0.02	-0.02	-0.04	-0.04
Other Products	-0.41	0.00	0.04	-0.37	-0.31	0.02	-0.04	-0.33
Total Products	**-0.56**	**-0.38**	**0.07**	**-0.87**	**-0.05**	**0.04**	**-0.26**	**-0.26**
Other Oils[1]	0.03	-0.03	-0.06	-0.06	-0.21	-0.04	-0.04	-0.29
Total Oil	**-0.09**	**-0.57**	**0.20**	**-0.47**	**-0.03**	**-0.13**	**-0.42**	**-0.57**

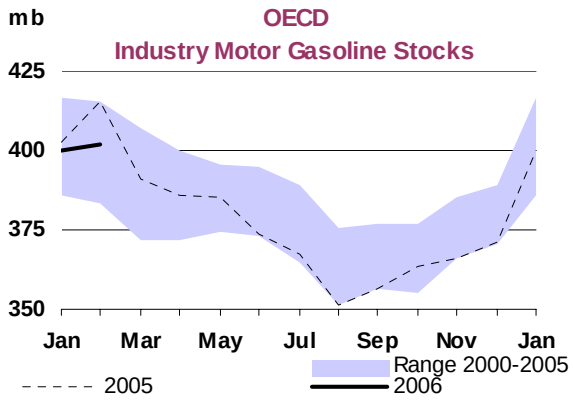
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude stocks** rose by 13 mb in February to end the month at 939 mb, or 16 mb above last year. The bulk of the increase was centred in the US as scheduled maintenance, delays in refinery start-ups and unscheduled outages depressed crude demand. Preliminary weekly data show that, though average imports slipped, US crude stocks continued to build in March as maintenance reached its seasonal peak. Stocks at Cushing, the delivery point for the NYMEX contract, reached another record high at the end of March, closing at 25.3 mb. In the Pacific, stocks built by a combined 5.5 mb in Japan and Korea.

- **OECD industry distillate stocks** fell by 13 mb in February to 538 mb, or 51 mb above last year. The decline came off an upwards revised base in the Atlantic Basin and was largely in line with seasonal trends. With the end of the heating season in sight, refiners began to shift production in favour of gasoline. In addition, a narrowing contango in the prompt trading months on gasoil futures possibly encouraged traders to dip into inventories given high costs of storage.

- **OECD industry gasoline stocks** trended sideways in February to finish the month at 402 mb, or 14 mb below last year. In March, sharp declines were seen in US total gasoline stocks with draws in both finished gasoline and RBOB stocks. The declines came as winter grade and MTBE blended material was cleared from tanks and scheduled maintenance reached its seasonal peak, reducing supplies. NYMEX gasoline futures also moved into backwardation in mid-March, providing further financial incentives to draw down storage.

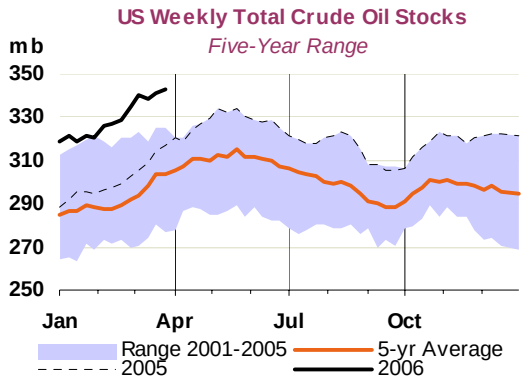


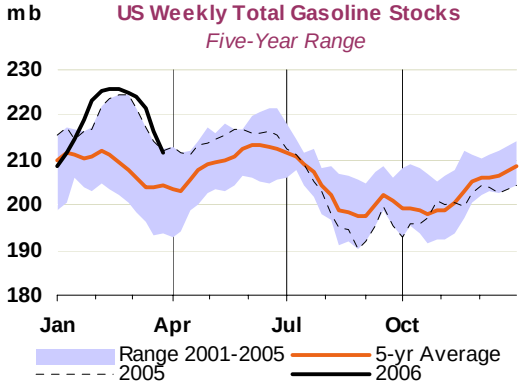


OECD Industry Stock Changes in February 2006

OECD North America

North American industry crude stocks rose by 12 mb in February to 452 mb, leaving a year-on-year surplus of 26 mb. The build came in the US where refinery maintenance and unscheduled outages lowered crude demand and imports continued at relatively high levels. Weekly preliminary data show that US crude inventories continued to build in March, adding an additional 10 mb to tanks. In the week ending 31 March, total US crude stocks held above 342 mb, a level not seen since April 1999. Crude stocks at Cushing, the delivery point for the NYMEX WTI contract, reached another all time high in March at 25.3 mb. Strength in prompt and forward Brent prices relative to WTI limited the potential for spot transatlantic arbitrage. Crude stocks are likely to come down from recent highs with the return of offline refinery capacity in April as maintenance unwinds.



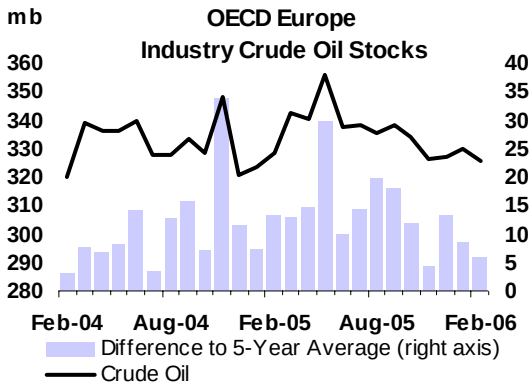


North American product stocks fell by 16 mb in February, with the bulk of the draw stemming from 'other products' and distillates in the US. Mexican product inventories fell by a total of 2.2 mb, 1.6 mb of which gasoline. As Mexico is moving to lower-sulphur specifications for high octane gasoline this year and domestic refiners have limited ability to produce this specification, they will have to compete with the US for foreign supplies.

US product inventories continued to fall in March on a combination of reduced refinery output and a slowdown in product imports. The sharpest declines were seen in gasoline as winter grade and MTBE blended material was cleared from tanks. Scheduled maintenance reached its seasonal peak in March, reducing supplies, while gasoline imports trended sideways at relatively high volumes. NYMEX gasoline futures moved into backwardation in mid-March, also providing strong incentives for dealers to dip into storage. Distillate stocks fell in line with seasonal norms but continue to trend above their five-year range.

OECD Europe

European crude stocks fell by 5 mb in February to close at 325 mb, or 3 mb below last year. Despite ongoing maintenance in Europe, throughputs were high and close to levels of a year ago. The crude draw was centred in Germany and the Netherlands but was partly offset by builds in the UK and other EU countries. In the Netherlands, the draw was partly motivated by the return of Shell's Rotterdam Pernis refinery after an unscheduled shutdown in January.



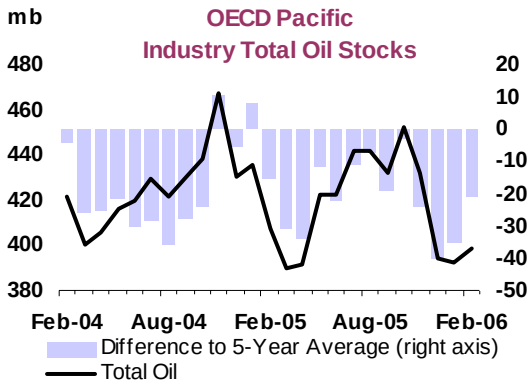
European crude stocks are likely to trend at the upper end of their range in March. Supplies were ample as spot arbitrage for regional crudes was limited by the strength of Brent relative to benchmarks WTI and Dubai. A persistent contango in the forward cash prices for Brent during March was reflective of high prompt supplies. Crude runs, though supported by improved cracking margins, are unlikely to be much higher in March, due to scheduled refinery maintenance.

European product stocks fell by a preliminary 11 mb in February. Draws came mainly in distillates but also in fuel oil, despite relatively high refinery runs. Distillate stocks fell seasonally, albeit from an upwardly revised January base, and are running well above their five-year range. German end-user

buying was subdued in February and consumer stocks fell to 49% of capacity from 52% in January. Sales out of storage were also encouraged by the narrowing of the contango in IPE gasoil futures. With the end of the heating season in sight, and expectations of lower demand, forward prices weakened relative to a rising prompt price. Prompt prices were supported by reduced supplies due to maintenance and lower Russian exports. Fuel oil inventories fell by close to 4 mb in February. The draws were centred in France, Italy and the Netherlands, following strong utility demand and lower arrivals of Russian material.

OECD Pacific

OECD Pacific crude stocks built by 5.5 mb in February to 162 mb, 7 mb below last year. Increases in Korean inventories followed from high crude imports which balanced seasonally strong crude demand. Throughputs were lower on the month, but remained at historically high levels as refineries were running hard to meet product demand given inventories of heating fuels at the lower end of their range. The build in February came on an onshore basis. Volumes of oil held on tankers at port were actually declining, signalling easing imports requirements ahead of scheduled maintenance.



Japanese onshore crude stocks also increased in February. Though imports were high, these had to meet firm throughputs and increased direct crude burning by utilities. Preliminary weekly data from the Petroleum Association of Japan show that runs continued at strong levels in March, although tailing off at the end of the month in line with seasonal trends. Japanese refiners are likely to maintain sufficient crude stocks for a last push of strong runs before maintenance peaks in May. In addition, refiners tend to increase crude stocks this time of the year to balance falling product stocks in order to manage overall inventories in compliance with domestic stockholding requirements.

Total product inventories in the Pacific built by 2 mb in February with Korea accounting for the gain. Preliminary indications show weaker regional product demand, in part due to above normal temperatures. In March, Japanese product stocks fell following lower refinery output and increased exports. The steepest declines were seen in kerosene stocks but also A-type fuel oil as refiners shifted production away from kerosene and fuel oil in favour of gasoline, jet fuel and diesel.

OECD Inventory Position at End-February and Revisions to Preliminary Data

Total OECD industry inventories ended February at 2616 mb, 13 mb lower than in January, but 46 mb above levels of a year ago. The year-on-year surplus was centred in North American crude and product inventories and, to a lesser extent, in European products stocks. In the Pacific, both crude and products were trending below last year's levels. Days of forward demand cover came to 53 days for the OECD as a whole, 1 day higher than last month and in 2005. Regionally, demand cover came to 50 days for North America, 62 days for Europe and 46 days for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for February 2006

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**26.4**	**-3.3**	**-6.9**	**16.1**	**Total Oil**	**1.2**	**0.8**	**-1.2**	**0.6**
Total Products	21.9	12.1	-0.4	33.6	*Versus 2003*	3.9	2.3	-4.0	1.9
Other Oils[1]	-3.7	1.6	-1.3	-3.3	*Versus 2002*	5.0	4.4	-1.3	3.6
Total Oil	**44.6**	**10.4**	**-8.6**	**46.3**	**Total Products**	**0.6**	**0.8**	**-0.1**	**0.5**
Versus 2003	122.9	32.1	-23.5	131.4	*Versus 2003*	2.4	2.0	-0.5	1.7
Versus 2002	188.6	81.2	-9.6	260.2	*Versus 2002*	2.6	2.8	0.2	2.2

1 includes feedstocks, NGLs and other hydrocarbons

Preliminary OECD oil inventories were revised up by 33 mb for January, with upward revisions in all regions. North American inventories were revised upwards by 12 mb, US 'other products' accounting for the bulk of the change. In Europe, a downward revision to crude (-3.1 mb) was offset by large upward adjustments to distillate (+9.7 mb) and gasoline stocks (+5.5 mb). Pacific inventories were revised upwards by 8 mb, mostly in Japanese crude inventories. December volumes were also revised upwards, with a 10 mb adjustment to Canadian crude partly offset by downward revisions to Korean crude stocks.

Revisions versus 14 March 2006 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Dec 05	Jan 06	Dec 05	Jan 06	Dec 05	Jan 06	Dec 05	Jan 06
Crude Oil	**9.9**	**-0.1**	**-1.1**	**-3.1**	**-1.8**	**5.9**	**7.0**	**2.8**
Gasoline	0.0	1.4	0.6	5.5	-0.1	0.3	0.5	7.2
Distillates	0.0	0.7	-2.5	9.7	-0.2	1.2	-2.7	11.6
Residual Fuel Oil	0.0	3.5	0.4	1.3	0.0	0.1	0.4	4.9
Other Products	0.0	8.5	0.2	0.4	0.0	0.6	0.3	9.5
Total Products	**0.0**	**14.0**	**-1.3**	**17.0**	**-0.3**	**2.2**	**-1.5**	**33.2**
Other Oils[1]	-0.4	-2.2	-1.2	-0.1	0.0	-0.2	-1.5	-2.5
Total Oil	**9.5**	**11.7**	**-3.6**	**13.8**	**-2.1**	**7.9**	**3.9**	**33.4**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

Recent Developments in ARA Independent Storage

Oil inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area fell for all products in March. In percentage terms, the steepest declines were seen for fuel oil. These fell by 45% since the end of February with storage ending at the bottom of its five-year range. The decline was supported by strong Italian utility demand in the first half of the month before Russian natural gas supplies normalised. More Russian high-sulphur fuel oil became available in March and with prices in Singapore firmly above other markets, the arbitrage window to Asia reopened and several VLCC shipments cleared surplus supplies.

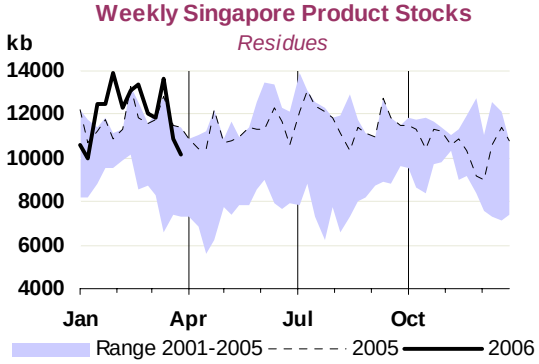
Gasoil inventories fell by 16% in March, but are still trending at the upper-end of their five-year range. The decline in inventories follows from lower refinery output and bouts of cold weather boosted heating oil demand in main consuming countries. Incoming material from Norway, the UK, Russia and Saudi Arabia was offset by deliveries into regional barge markets. In addition, the IPE gasoil futures forward curve flattened over the course of March, encouraging traders to sell from inventories as the cost of storage remains high in view of tight spare tank capacity.

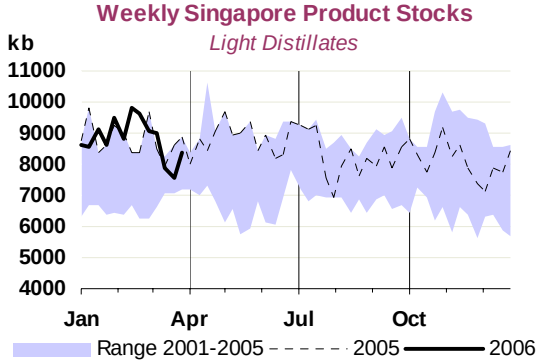
In contrast, gasoline inventories were only slightly lower in March with deliveries to the US, Nigeria, South Africa, Togo and Mexico offset by incoming material from Germany, the UK, Spain, Russia and the Mediterranean. Keeping product in storage for summer deliveries was encouraged by the forward price structure of Northwest European swap prices. In contrast to NYMEX unleaded gasoline futures, these remained in a firm contango.

Recent Developments in Singapore Stocks

Singapore product inventories in all categories in March, with the steepest declines seen in residues. Fuel oil supplies tightened in March as lower exports from South Korea and the Middle East (due to maintenance) were compounded by lower arrivals of European and Russian material. Strong demand from utilities in Japan and Taiwan as well as from the Singapore bunker market further supported the draw. Into April, stocks are likely to increase with a surge in arrivals from the FSU and Europe.

Light distillate stocks, which include naphtha and gasoline, fell in March. The draw appeared supply driven with lower gasoline exports from China, South Korea and Taiwan. Gasoline imports, though weak in Indonesia were offset by steady demand from Vietnam and the Middle East. Gasoline supplies tightened further as the arbitrage window to the US reopened and Japanese buying of ultra low-sulphur gasoline increased. Naphtha supplies appeared ample, with Asian petrochemical plants in turnarounds during March. The reopening of the arbitrage for naphtha from Europe and the switch by Japanese and Korean end-users to cheaper LPG also added to supplies.

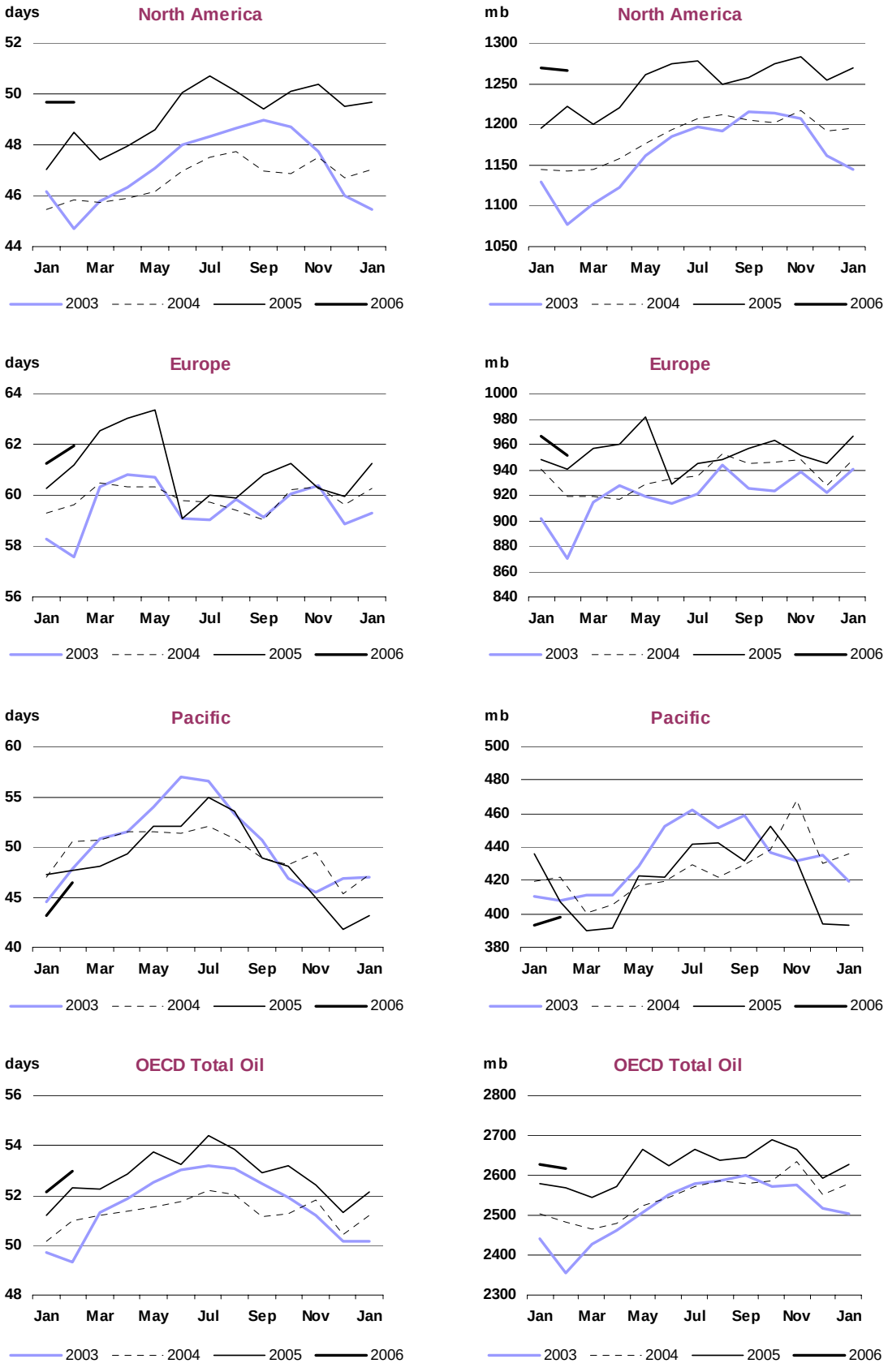




Regional OECD End-of-Month Industry Stocks

(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

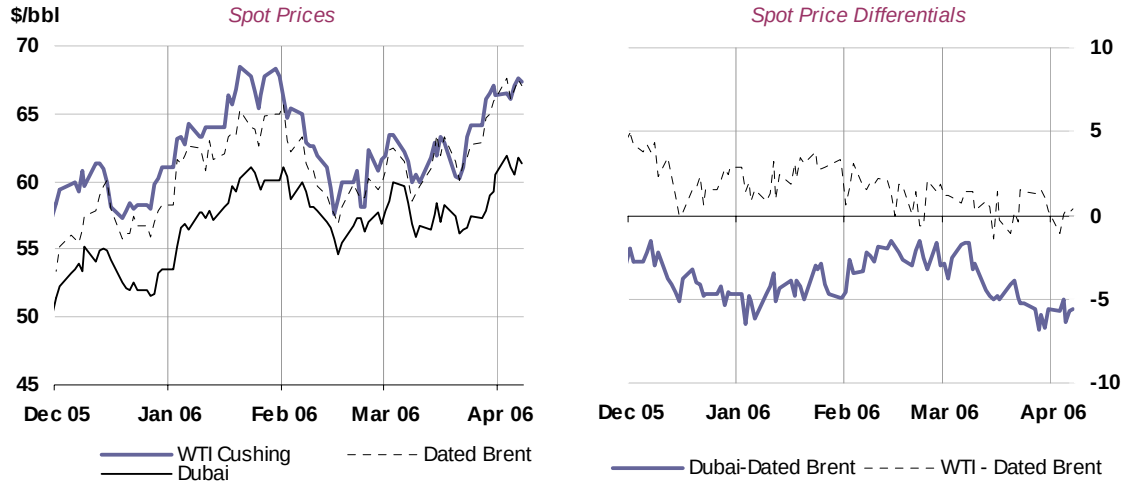
- **Crude futures** rose on average $1.04/bbl for NYMEX WTI and $1.89/bbl for IPE Brent in March with gains established in the second half of the month. A stronger front-end of the curve reflected anticipation of higher crude demand when US refinery turnarounds begin to unwind in April. Prompt futures were also buoyed by strong gasoline prices, ongoing geopolitical uncertainty concerning Iran and further disruptions to Nigerian supply. Altogether, these factors pushed NYMEX WTI for May delivery towards $70/bbl in early April. Non-commercial players on the NYMEX WTI contract switched from a net-selling position in March to a net-buying one in early April. The forward curve flattened, notably for NYMEX WTI, with near-month prices converging upwards.

- **Physical crude** prices for WTI and Brent rose slightly faster than their paper counterparts. Gains in WTI, however, were not sufficient to establish a large enough premium to Brent to facilitate transatlantic spot arbitrage sales of related crudes. US buyers instead turned to domestic light-sweet grades while also bidding up domestic sour crudes as some Gulf Coast refiners began to exit from scheduled maintenance. The premium for Brent (quoted in Asia) over Dubai swap prices widened during March, reflecting anticipation of lower crude demand in Asia when refiners enter their seasonal refinery maintenance period in April and May.

- **Product futures** in March were dominated by a sharp rise in the price for NYMEX unleaded gasoline. Summer quality gasoline began to trade in March with the introduction of the April delivery contract amidst concerns over the phase out of MTBE blended gasoline in May. The price rise gained momentum as inventories dropped in the second half of March while a number of unplanned refinery outages and start-up delays were reported. The gasoline crack spread peaked at just under $17/bbl before easing back slightly in early April when May delivery assumed the prompt trading position. The contango structure in the near months was maintained in gasoil futures, though narrowing whereas the near-month spread for gasoline flipped into backwardation in mid-March.

- **Physical product** prices saw increases in gasoline lead trends in the Atlantic Basin while developments in gasoil and fuel oil prices dominated Asian trends. US gasoline prices rose as production of conventional gasoline fell with refinery maintenance and unplanned outages. Gasoline prices in Europe rose alongside those in the US, also drawing support from active refinery buying in Northwest Europe. Singapore gasoil prices posted strong gains amid lower supply and exports to Africa. Fuel oil in Singapore outperformed other markets, with high-sulphur material supported by strong bunker demand and lower exports in the region.

Benchmark Crude Oil Prices



Oil Futures Prices

Oil futures prices were range-bound through the middle of March and the contangos in the forward structure in the near-traded months held broadly stable in the first week. Prices rallied in the second half of the month as the crude market was taken higher with further disruptions to Nigerian crude supplies and returning geopolitical tensions surrounding the Iranian nuclear programme. On 11 April, NYMEX WTI and IPE Brent had breach $69/bbl for May delivery and US forward delivery for the second and third quarters moved above $71/bbl while winter delivery rose above $72/bbl. Product price gains were also supportive of higher crude futures prices. NYMEX unleaded gasoline rose with a sharp downward correction in US gasoline stocks in the second half of March. This, alongside delays in refinery start-ups and unplanned outages, pushed up gasoline prices for prompt delivery relative to forward values. Specification changes this year in US gasoline and distillates are affecting market sentiment. Concerns over the physical deliverability of NYMEX's gasoline contract ran high with MTBE blended gasoline phased out in the US in May. In the case of US distillates, sulphur reductions and ensuing restrictions for pipeline deliveries from the Gulf Coast to the northern US raised questions on adequate supply availabilities going forward.

Prompt Month Oil Futures Prices

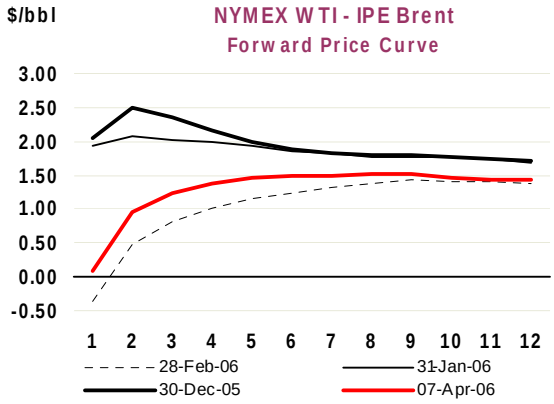
(monthly and weekly averages, $/bbl)

	Jan	Feb	Mar	Mar-Feb Avg Change	%	Week Commencing: 06 Mar	13 Mar	20 Mar	27 Mar	03 Apr
NYMEX										
Light Sweet Crude Oil	65.54	61.93	62.97	1.04	1.7	60.89	62.68	62.19	66.09	67.07
Unleaded Gasoline	73.79	64.21	75.30	11.08	14.7	70.12	77.05	75.98	80.72	81.33
No.2 Heating Oil	75.06	70.84	74.73	3.89	5.2	72.06	75.05	74.24	77.34	78.62
No.2 Heating Oil ($/mmbtu)	12.89	12.16	12.83	0.67	5.2	12.37	12.88	12.74	13.28	13.50
Henry Hub Natural Gas ($/mmbtu)	9.14	7.52	6.98	-0.54	-7.8	6.62	7.13	7.05	7.24	7.02
IPE										
Brent	63.86	61.14	63.03	1.89	3.0	61.09	63.06	62.35	65.30	67.09
Gasoil	74.44	72.43	75.21	2.77	3.7	72.96	75.48	75.05	77.32	79.09
Prompt Month Differentials										
NYMEX WTI - IPE Brent	1.68	0.78	-0.06	-0.85		-0.20	-0.38	-0.16	0.79	-0.02
NYMEX No.2 Heating Oil - WTI	9.52	8.91	11.76	2.85		11.17	12.37	12.05	11.25	11.55
NYMEX Unleaded Gasoline - WTI	8.25	2.29	12.33	10.04		9.23	14.37	13.80	14.62	14.26
NYMEX 3-2-1 Crack	8.68	4.50	12.14	7.64		9.88	13.71	13.21	13.50	13.36
NYMEX No.2 - Natural Gas ($/mmbtu)	3.75	4.64	5.85	1.21		5.75	5.76	5.69	6.03	6.48
IPE Gasoil - IPE Brent	10.59	11.29	12.18	0.89		11.88	12.42	12.70	12.02	12.00

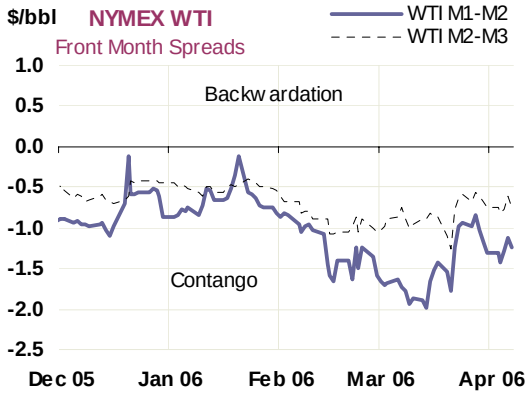
Crude Futures

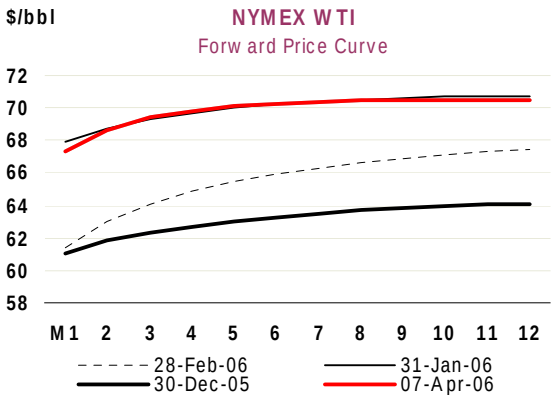
Crude futures moved sideways in the first half of March. NYMEX WTI and IPE Brent were generally contained between $60/bbl and $64/bbl, breaking out on the upside in the last 10 days of March to climb to $66.63/bbl for WTI and $65.91/bbl for Brent. The spread in forward prices between WTI and Brent saw modest changes in the prompt month differential as ongoing US refinery maintenance kept WTI at a discount. The differential widened for the summer months, when throughputs are maximised to meet summer gasoline demand. However, even then, the differential ended at below $1.50/bbl and did not appear to be pricing in an arbitrage spread to attract Brent-related light-sweet crude to the US.

The main change in crude futures has seen some flattening in the front end of the forward curves, reflecting anticipations of higher crude demand as refiners exit maintenance. This was more pronounced for WTI. Time-spreads in the near three months narrowed between $0.60/bbl and $0.85/bbl. This contrasted with a NYMEX differential in the second to third month that reached almost $2.00/bbl in mid-March. The backend of the forward curve from beginning to the end of the month was relatively stable. The 12-month forward contract ended roughly where it began over March, at around $69/bbl, but jumped higher in April to reach $72/bbl.



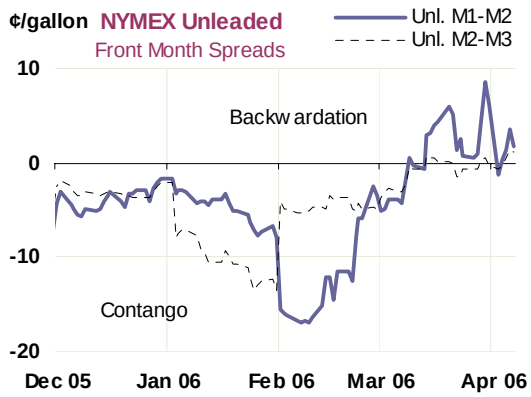
Prompt futures prices for crude oil moved higher in April, buoyed by strong gasoline prices. The increase puts NYMEX WTI squarely above its 200-day moving average (a long-term price support indicator considered by some market players) and in line with a broad upward trend in place since 2004. During March, non-commercial players on the NYMEX crude contract were seen reducing their net selling positions, and in early April, had turned net buyers. The move appeared to follow growing supply concerns ahead of the return of US refiners from scheduled maintenance in April and May. Nigerian supply disruptions breached 600 kb/d of crude and upcoming field maintenance in the North Sea will further reduce availability of light-sweet crude. At the same time southern exports from Iraq remained depressed.

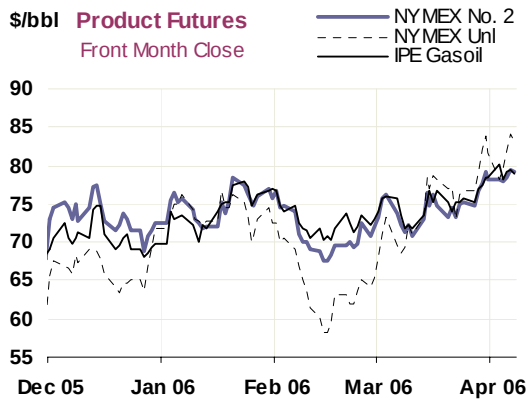




Product Futures

In product futures, the more notable developments centred on NYMEX's unleaded gasoline contract. After a sharp decline in February, gasoline futures rose strongly in March as the summer specification April contract began to trade. Strength in the prompt month contract followed from uncertainties over future supply availabilities. US refineries were undergoing maintenance and inventories fell sharply (with declines seen in finished gasoline and RBOB stocks) reversing builds achieved in the first half of the month. In contrast to Europe, where the swap price held in contango, the April-May time spread flipped into backwardation while the May-June spread was roughly balanced, offering no clear financial signal to move product into storage. While this may be no surprise given the phasing out of the MTBE blended material in May, the near-month time spreads in the RBOB contract, which will replace the current contract, were similarly structured.





In March, NYMEX heating oil prices rose on average more than gasoil on the IPE and the futures crack spread seasonally fell below gasoline. Non-commercial players on the NYMEX contract steadily increased their net buying position during the month in spite of comfortable stocks at the end of the heating season. While lower distillate production provided support to prices, future supply came under scrutiny. Lower-sulphur specifications on diesel and associated constraints for pipeline transport raised concerns of adequate deliveries into northern consuming areas supplied by the Gulf Coast. The forward curve continued to price the summer months at a contango. Backwardation is more usually observed to encourage sales from storage to distribution centres ahead of winter.

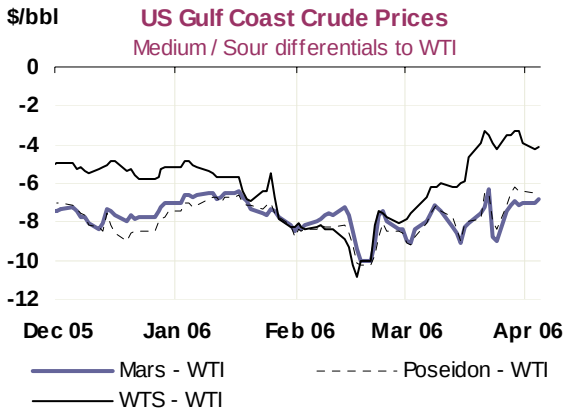
Spot Crude Oil Prices

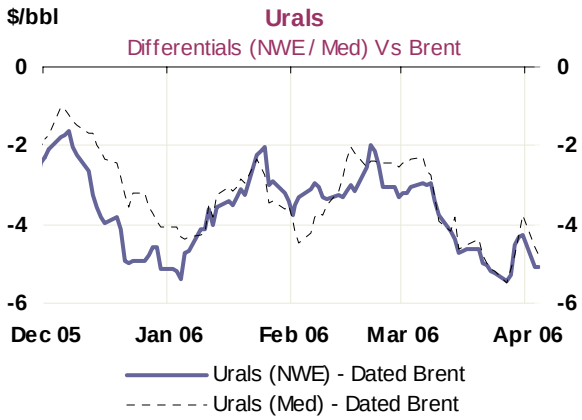
Spreads between benchmark crudes saw WTI remain weak relative to Dated Brent. US demand for foreign light-sweet grades was thin over the month. Scheduled refinery turnarounds kept operating levels below 88% of capacity utilisation and US crude inventories were comfortably above their five-year range, moderating the impact of Nigerian supplies disruptions. The average premium of WTI over Brent in March fell to $0.73/bbl compared to $1.45/bbl in February and is unlikely to rise materially before the end of April when refiners begin to come out of maintenance.

In contrast, the Brent-Dubai spread widened considerably in March, with Dubai discounted by as much as $6/bbl by the end of the month. Asian crude demand began to decelerate as trade moved to May and June loading barrels, a period when scheduled maintenance in Northeast Asia is expected to reach its peak. In addition, arbitrage sales of Atlantic Basin crude to Asia at the end of February and early March were high, limiting spot demand for regional crudes. Average gains for Dubai in March came to $0.21/bbl while those for Dubai swaps were only marginally higher. Dated Brent was up by $1.97/bbl and WTI priced at Cushing rose by $1.25/bbl.

The contango in forward physical prices for Brent was sustained but narrowed in March. Despite closed spot arbitrage to the US, prompt values strengthened on further disruptions to Nigerian supplies and lower expectations for North Sea supply in April due to seasonal field maintenance. North Sea crudes held on to their premium against a rising Dated Brent and March programmes were cleared relatively easily. Demand for these crudes also drew support from improving cracking margins on the strength of gasoline prices.

Urals, in contrast, was heavily discounted on ample supplies. Arbitrage to the US was closed and though Urals appeared to achieve a sufficient discount on paper against Oman, unlike in February, no volumes were reported heading to Asia. Weakness in the Mediterranean stemmed from refinery maintenance curtailing crude demand and greater availabilities as shipping delays through the Turkish straits eased. Competing supplies of Iranian crude and lower official selling prices for Iraqi Basrah light also pressured values. In Northwest Europe, though Baltic exports were steady on the month, they were at relatively high absolute levels.

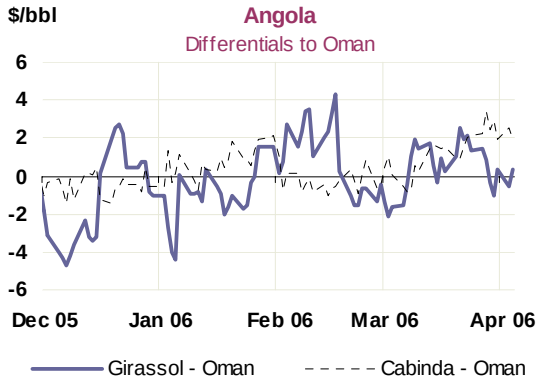


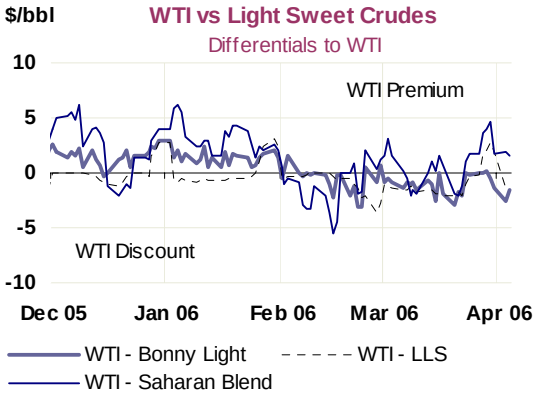


US demand for foreign light-sweet crude was weak in March. Spot freight rates were only marginally lower and higher Brent-related crude prices in response to supply disruptions in Nigeria turned US buyers' attention to domestic grades instead, widening LLS's premium to WTI. Sour crudes strengthened against WTI as by end-month, some refineries returned from maintenance. On the Gulf Coast, domestic medium sours like WTS and Mars were preferred over harder to refine Canadian grades and were bid up in absence of comparable Iraqi or Urals crude. On the West Coast, ANS saw its discount to WTI narrow following pipeline problems that forced the shutdown of 95 kb/d of supply from Prudhoe Bay. However, the firming of the spread was modest as crude demand in the area weakened with an outage at Exxon's Torrance refinery.

West African crude premiums to Brent were relatively steady, holding generally above $1.50/bbl for Nigeria grades. Disruptions to Nigerian supply worsened in March with offline production peaking above 600 kb/d, putting the monthly average to 450 kb/d. Despite meetings between the Nigerian government and Delta region leaders, results were inconclusive and militants involved in the

disruptions of supplies were reported to disengage from talks. Shell announced however that it did hope to restart the smaller EA field that has been shut since February. At the time of writing, there was no indication from Shell that production would resume at the larger Forcados stream given underlying security concerns. As in February, troubles in Nigeria led crude buyers to look at alternative grades. Saharan Blend was reported was once again a candidate, its deepening discount to Bonny Light or Forcados, making it more attractive choice for US buyers. US refiner interest in West African grades appeared to rise at the end of March for barrels loading in May to be delivered when maintenance work ends and runs are ramped to meet summer demand.

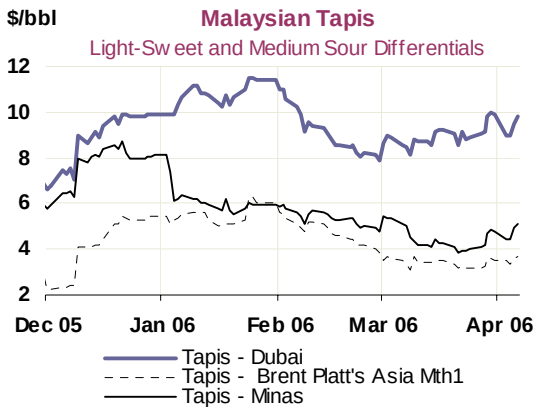




Amongst West African crudes, Angolan Cabinda held its discount steady to Brent on continued Chinese interest for April loading barrels (traded in early March). Likewise similar quality Girassol was bid up against Brent, however, interest eased as trading moved into May barrels ahead of scheduled field maintenance. Differentials for Angolan grades against markers Oman and Dubai strengthened through the balance of March, limiting potential for arbitrage sales east.

Direction in Asian and Middle Eastern price trends was heavily influenced by the region's upcoming refinery maintenance period and seasonally weaker kerosene demand. Preliminary reports indicate that maintenance in Northern Asia will be heavy this year with some 1.4 mb/d of capacity expected to go offline during June. Requirements for kerosene (used as a heating fuel) fell seasonally with the end of winter, and values of distillate-rich crudes suffered. Spot quotes for Abu Dhabi grades such as Murban were reported trading at deep discounts to their official selling prices.

Light-sweet Malaysian Tapis came under similar pressure due to its high distillate yield. In addition, the grade saw competing supplies of comparable crude from Australia where Northwest Shelf production temporarily recovered in February from cyclone-related outages in January. Tapis' premium rose against medium sour Dubai, but fell against sweet crudes such as Indonesian Minas and Brent quoted in Asia.



Weaker Middle East price trends came in parallel with a lowering of Saudi Arabia's price formula to Asian buyers for April barrels while full contractual volumes were offered to Korean and Japanese refiners. Some support for Middle Eastern crudes was afforded at end-month, buying interest emerging from Thailand on weaker prices for Oman and lighter Abu Dhabi grades.

Delivered Crude Prices in January

The monthly gross cost of the average barrel of crude imported into IEA countries rose by $3.95/bbl in January, to $57.59/bbl. Regionally, European IEA countries experienced the largest monthly increases, paying $59.72/bbl in January, which was $4.68/bbl more than the previous month.

Spot Crude Oil Prices and Differentials

(monthly and weekly averages, $/bbl)

	Jan	Feb	Mar	Mar-Feb Avg Change	%	Week Commencing: 06 Mar	13 Mar	20 Mar	27 Mar	03 Apr
Crudes										
Dated Brent	63.05	60.12	62.09	1.97	3.3	59.76	62.35	61.51	64.91	66.99
Brent (Asia) Mth1 adjusted	63.71	61.99	63.38	1.39	2.3	62.64	63.05	62.53	64.92	67.20
WTI (Cushing) Mth1 adjusted	65.46	61.57	62.82	1.25	2.0	60.82	62.57	61.82	66.01	66.95
LLS Mth1 adjusted	66.01	62.22	64.33	2.11	3.4	62.34	64.34	63.27	67.48	68.40
Mars Mth1 adjusted	58.39	53.39	54.97	1.57	2.9	53.36	54.11	54.03	58.88	60.22
Urals (Northwest Europe)	59.48	57.08	57.87	0.79	1.4	56.55	57.85	56.51	60.12	62.21
Urals (Mediterranean)	59.57	57.06	58.11	1.05	1.8	56.79	58.01	56.63	60.21	62.31
Bonny Light (Dated)	64.04	62.12	63.80	1.69	2.7	61.94	63.79	63.20	66.34	68.65
Cabinda (Dated)	60.13	58.32	60.42	2.10	3.6	58.46	60.44	59.86	63.01	65.16
Dubai Mth1 adjusted	58.44	57.61	57.82	0.21	0.4	57.52	57.55	56.84	58.78	61.31
Dubai Swaps Mth1 adjusted	58.58	57.89	58.76	0.88	1.5	58.24	58.57	57.84	59.89	62.04
Basrah Light (Dated)	56.89	53.08	54.57	1.49	2.8	53.38	54.51	52.42	58.25	60.14
Minas (Dated)	63.15	61.35	62.30	0.95	1.5	61.40	62.26	61.79	63.81	65.91
Tapis (Dated)	69.20	66.74	66.79	0.05	0.1	66.05	66.52	65.74	68.35	70.77
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	2.42	1.45	0.73	-0.72		1.06	0.22	0.31	1.10	-0.05
Urals (Mediterranean)	-3.47	-3.07	-3.99	-0.92		-2.97	-4.35	-4.88	-4.69	-4.69
Urals (Northwest Europe)	-3.57	-3.04	-4.22	-1.18		-3.22	-4.51	-5.00	-4.78	-4.78
Bonny Light	0.99	2.00	1.71	-0.28		2.17	1.43	1.69	1.43	1.66
Dubai Mth1 adjusted - Dated Brent	-4.61	-2.52	-4.28	-1.76		-2.24	-4.81	-4.67	-6.12	-5.68
Dubai Swaps - Brent Asia	-5.13	-4.10	-4.62	-0.52		-4.40	-4.48	-4.69	-5.04	-5.16
Tapis (Dated)	6.15	6.62	4.70	-1.92		6.29	4.17	4.23	3.44	3.77
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-0.50	-0.80	-0.51	0.29		-0.67	-0.48	-0.43	-0.38	-0.42
Forward WTI Cushing Mth1-Mth2 adj.	-0.59	-1.26	-1.40	-0.14		-1.78	-1.64	-1.02	-1.01	-1.24

Spot Product Prices

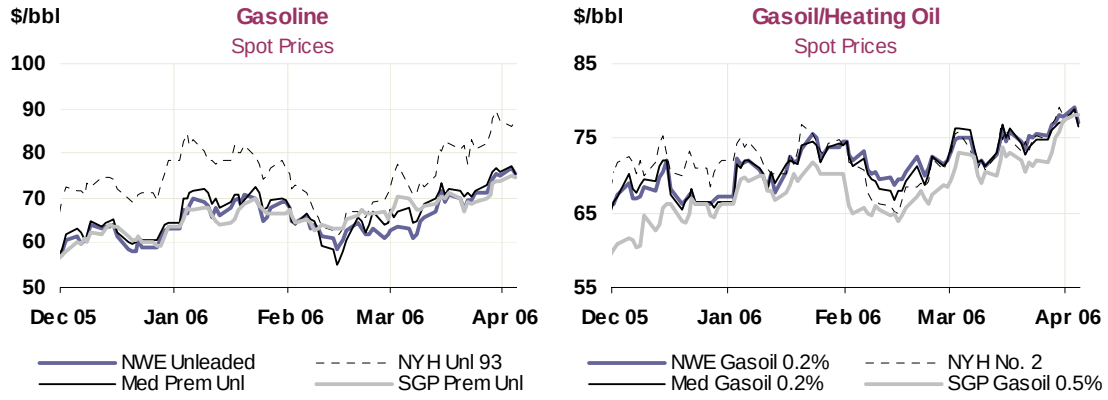
(monthly and weekly averages, $/bbl)

	Jan	Feb	Mar	Mar-Feb *Change*	%	Week Commencing: 06 Mar	13 Mar	20 Mar	27 Mar	03 Apr	Jan	Feb	Mar
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	69.35	63.78	69.46	5.68	8.9	64.44	70.77	70.59	75.15	78.97	6.30	3.66	7.37
Unleaded	68.15	62.71	68.34	5.63	9.0	63.41	69.69	69.48	73.90	77.63	5.10	2.59	6.25
Naphtha	61.85	57.88	58.16	0.28	0.5	56.95	58.76	57.18	59.70	61.05	-1.20	-2.24	-3.93
Jet/Kerosene	76.37	74.51	76.73	2.22	3.0	74.72	76.52	76.42	78.71	80.34	13.32	14.39	14.64
Gasoil .2%	72.06	71.12	74.78	3.67	5.2	72.57	74.91	74.80	77.07	78.07	9.01	11.00	12.69
LSFO 1%	46.98	48.90	47.18	-1.73	-3.5	46.52	46.89	46.75	47.65	47.75	-16.07	-11.22	-14.92
HSFO 3.5%	44.01	45.90	45.90	0.00	0.0	44.24	45.76	46.07	47.62	48.54	-19.04	-14.22	-16.19
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm *	67.64	61.18	69.42	8.23	13.5	65.17	70.37	69.85	74.05	76.19	8.07	4.13	11.31
Naphtha	58.83	56.03	57.31	1.27	2.3	55.97	57.94	56.39	58.94	60.24	-0.74	-1.02	-0.80
Jet Aviation fuel	74.03	73.88	76.11	2.23	3.0	74.18	76.68	75.85	77.61	78.97	14.45	16.83	18.00
Gasoil .2%	71.99	70.17	74.80	4.63	6.6	72.98	75.32	74.08	76.36	77.66	12.41	13.11	16.69
LSFO 1%	49.88	53.13	49.62	-3.51	-6.6	49.38	50.25	48.86	48.97	48.30	-9.69	-3.93	-8.48
HSFO 3.5%	41.30	44.38	45.14	0.76	1.7	44.61	45.22	44.66	45.96	46.87	-18.27	-12.68	-12.97
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	79.33	67.41	79.22	11.81	17.5	72.15	80.20	80.88	86.13	88.66	13.87	5.84	16.40
Unleaded	72.82	63.15	74.17	11.02	17.4	68.87	76.26	74.72	79.64	82.76	7.35	1.58	11.35
Jet/Kerosene	77.42	73.56	80.39	6.82	9.3	77.46	80.60	80.33	83.50	83.61	11.95	11.99	17.56
No. 2 (Heating Oil)	73.41	68.86	74.67	5.81	8.4	71.83	75.06	74.31	77.32	78.69	7.94	7.29	11.84
LSFO 1%	47.63	48.14	47.36	-0.79	-1.6	47.85	47.23	46.55	46.92	48.39	-17.84	-13.43	-15.47
No. 6 3%	44.39	46.49	46.61	0.12	0.3	46.87	46.68	46.34	46.19	46.93	-21.07	-15.08	-16.21
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	66.78	65.02	69.64	4.62	7.1	68.24	70.07	68.80	72.33	75.07	8.34	7.42	11.82
Naphtha	58.26	56.65	59.82	3.18	5.6	58.88	60.80	59.21	60.86	61.35	-0.18	-0.96	2.01
Jet/Kerosene	77.02	74.96	75.66	0.70	0.9	74.40	75.97	75.20	77.12	79.31	18.58	17.35	17.84
Gasoil .5%	69.37	66.08	72.21	6.12	9.3	70.97	72.34	71.51	74.61	78.68	10.93	8.48	14.39
LSWR Cracked	53.63	52.08	52.43	0.36	0.7	50.23	52.50	52.80	54.66	56.00	-4.81	-5.53	-5.38
HSFO 180 CST	47.69	50.43	51.87	1.44	2.9	51.79	51.84	51.62	51.64	52.25	-10.75	-7.17	-5.95
HSFO 380 CST 4%	47.51	50.26	51.24	0.99	2.0	50.97	51.51	50.70	51.23	52.11	-10.93	-7.35	-6.57

* From January 2005 Premium Unleaded 50 ppm

Spot Product Prices

Gasoline prices set the pace in product trends in March with strong gains in the US leading European values higher. Relative tightness was reflected by the NYMEX April (summer grade) prompt contract flipping into backwardation mid-month as increases in physical prices drew support from several factors. While US demand growth appeared modest in March, cash prices were buoyed by supply concerns in the seasonal transition period towards summer quality gasoline. Summer specification gasoline is harder to produce and market concerns were focused on possible supply dislocations as additive MTBE is phased out from the gasoline pool in May. At the same time, US production of conventional material was lower due to refinery maintenance. Total US motor gasoline stocks corrected a large overhang relative to seasonal norms in the second half of March with declines in both finished gasoline and RBOB stocks. Delays in refinery start-ups alongside unplanned outages at key gasoline producing facilities, such as Hovensa's St. Croix plant, also helped to propel prices higher in the second half of the month. RBOB (87 octane) in New York Harbour reached $84.38/bbl on 10 April compared to $65.59/bbl at the end of February.



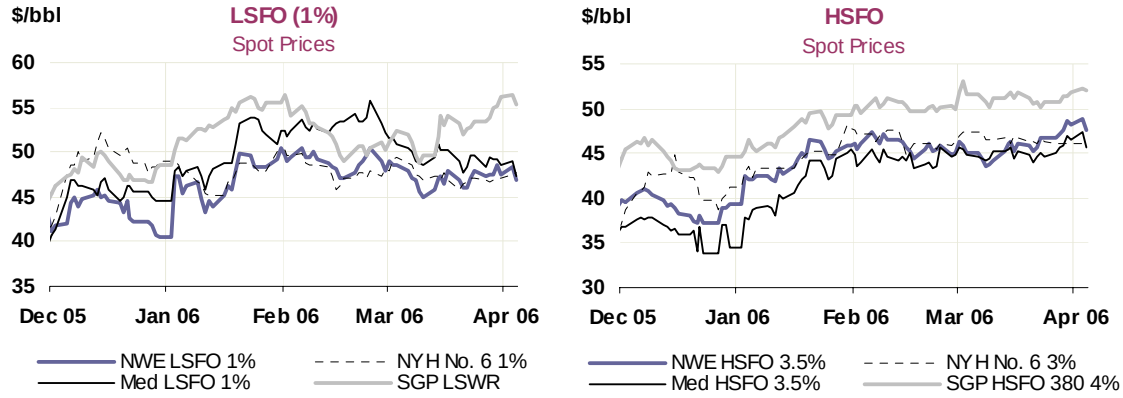
European gasoline rallied in line with US prices, though regional demand was not particularly supportive. Sales in February to the US had tightened supplies and refinery bidding on the barge market in Northwest Europe (to cover for maintenance in the UK) was supportive of prices. Aside from the US, foreign demand on European gasoline continued apace with deliveries to Nigeria but also to Mexico where sulphur reductions were mandated on high octane grades this year.

In the Mediterranean, premium gasoline prices were increasing faster on average than in Northwest Europe, lifted by heavier refinery maintenance in the area and lower availability of prompt summer grade material. Demand from Iran also helped to keep prices firm with a reported tender awarded for 10 cargoes for delivery in the second quarter. Gains in New York Harbour opened spot arbitrage opportunities and close to 500 000 tonnes of gasoline were reported fixed to the US in the first week of April. With more gasoline leaving the region and refinery maintenance confirmed at the large Pernis refinery in Rotterdam, tighter supplies will support high European prices.

In Singapore, the reforming margin (the premium of gasoline over naphtha) was on average higher, though this was in part due to relative weakness in naphtha. Price gains were weaker than those seen in the Atlantic Basin and appeared to stem mainly from reduced supplies following lower exports from China, Taiwan and Korea. Reductions in Chinese availabilities were partly motivated by the removal of export subsidies in mid-March. Demand from Japan, Vietnam and the Arab Gulf region was reported to be strong.

Gasoil price changes appeared to be largely weather-driven in Europe in March. Deliveries into the key German and French heating oil markets picked up as temperatures fell below seasonal norms early in the month. The region also saw lower arrivals of Russian material. In Northwest Europe, 0.2% gasoil moved from a discount in February to near parity with rising gasoil futures while the premium for Russian gasoil increased. In contrast, European diesel premiums against the IPE's gasoil contract trended sideways over the month as did jet fuel values. Jet fuel prices saw on average smaller gains than for gasoil on incoming supplies from the Middle East (diverted away from a weak Asian market). At the time of writing, swaps in Northwest Europe for jet fuel continued to price a contango though 1Q07, supporting moving product into storage.

Increases in US heating oil prices in New York Harbour and on the Gulf Coast were higher on average than those observed in Europe despite relatively warm weather and comfortable (although seasonally declining) heating oil stocks in the main Northeast consuming region. This appeared to be a supply-driven phenomenon. Distillate production, as for gasoline, was down with refinery maintenance reducing output. At the same time, with spot arbitrage possibilities from Europe closing in February, imports declined markedly. Relative price strength in Europe was in turn accompanied by reports of gasoil exports from the Gulf Coast. Heating oil prices however, were trading close to NYMEX futures whereas cash prices for diesel and jet fuel firmed against the heating oil contract.



In Singapore, increases in gasoil prices outperformed rises in other products mainly on lower supplies of low-sulphur material. While Asia and the Middle East moved into refinery maintenance, reducing export availabilities, supplies of higher-sulphur gasoil in the region also tightened. Heavy sales to Africa cleared a surplus in the region that followed from high runs in February. Singapore gasoil swaps ended in backwardation against the second quarter in March, reflecting expected lower output due to refinery maintenance.

Kerosene prices were on average unchanged. Buying was thin with the end of winter in Northeast Asia and arbitrage opportunities to the US appeared closed. Though some interest for jet fuel was seen in China, it was not enough to stir the market and the prompt month in Singapore paper markets was discounted relative to forward values. Weakness in prompt kerosene prices was also seen in a narrowing differential to gasoil (the regrade premium). This fell markedly during March.

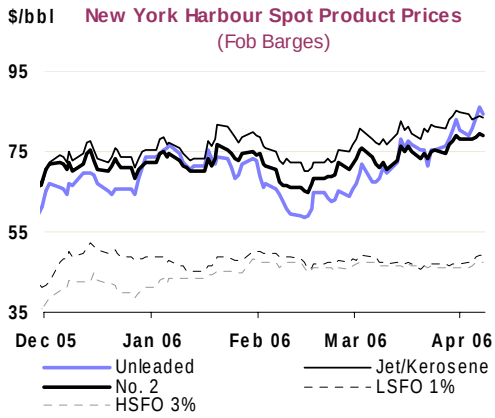
High-sulphur fuel oil (HSFO) in Singapore saw the strongest prices on an absolute basis across markets surveyed, supported by strong bunker demand in the region and lower supplies. Part of the price strength was attributed to trading plays as reflected in reported high physical trade volumes. Arrivals of western supplies dipped in March and exports from Korea and the Middle East were reduced on refinery turnarounds, leading to firm prices for Singapore's benchmark 180cst grade. Expectations of higher arrivals of western material in the second half of April and the continued absence of Chinese interest were conducive to an easing of the backwardation in swap prices that has been in place since February. Low-sulphur fuel oil (LSFO) in turn received support from utility buying, notably from Japan, but also Taiwan and Thailand. Values for low sulphur waxy residue were bid up, helped by cheaper freight for product tankers in the region.

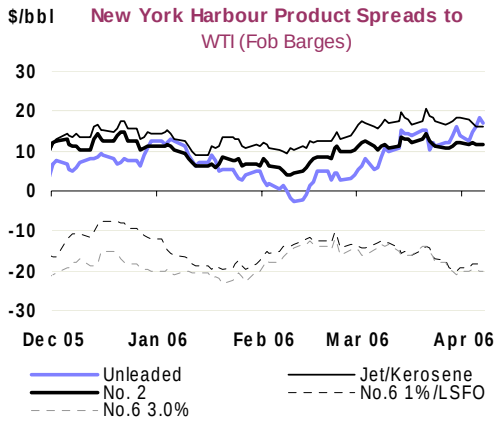
European HSFO prices were relatively unchanged on average in March, though steadily converging upwards to LSFO prices. HSFO rose on the back of higher crude prices and a number of VLCC bookings to ship product to Asia. Warmer temperatures in Europe and a normalisation of natural gas supply from Russia weighed on European LSFO values. Incremental utility demand fell back, particularly in the Mediterranean, and prices declined steadily in March.

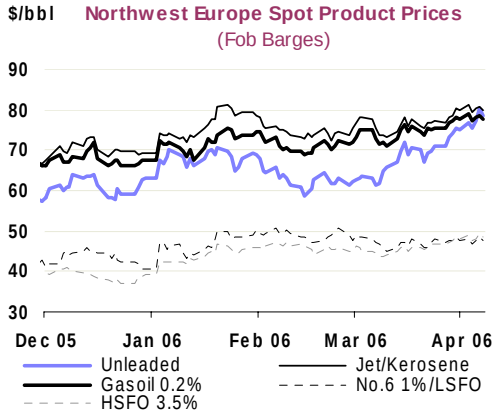
End-User Product Prices in March

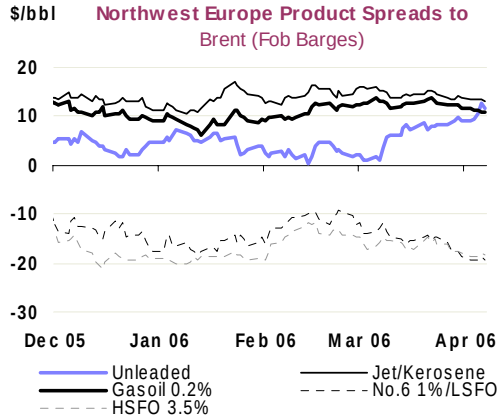
Rebounding March spot gasoline prices on international markets were felt at the pump by OECD consumers in all countries except Germany and UK based on ex-tax US dollar terms. On the same basis, Canadian and American drivers were hardest hit in March, experiencing 6.8% and 3% increases in average monthly gasoline prices respectively. Diesel end-user prices rose in all countries surveyed except UK, though less dramatically than gasoline. European consumers paid 1-2% more in dollar terms for heating oil in March, excluding taxation.

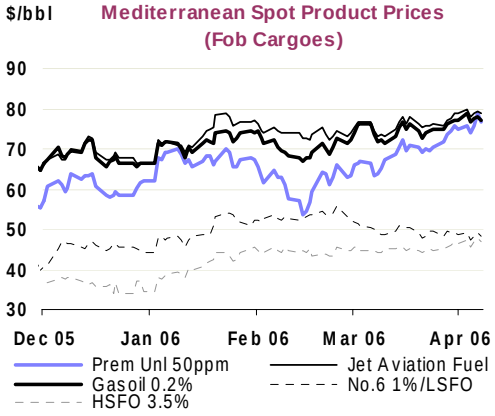
Product Prices and Differentials to Benchmark Crude Oil Prices

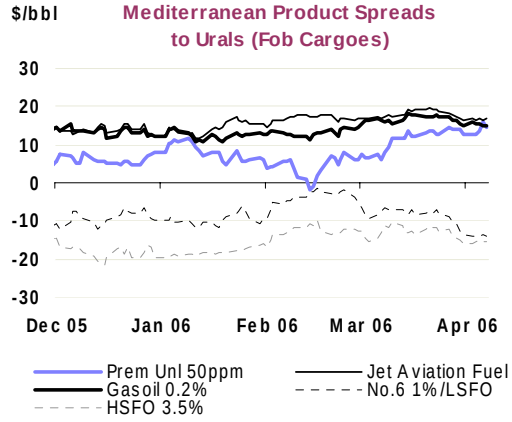


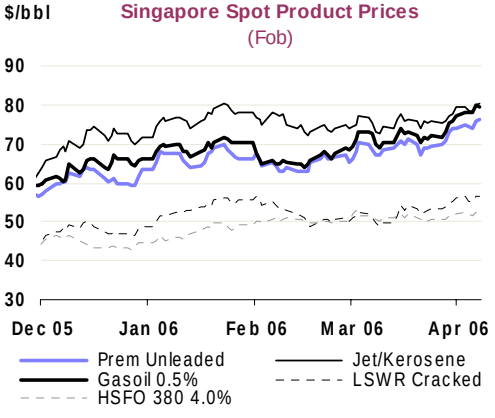


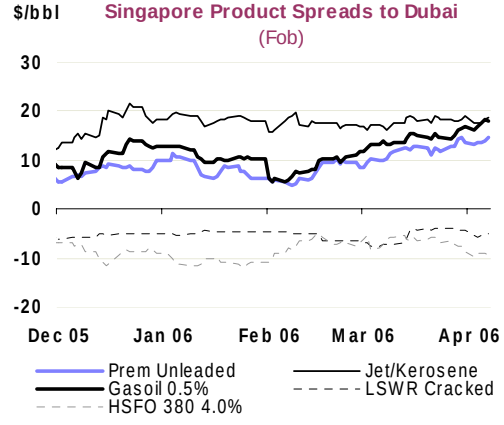










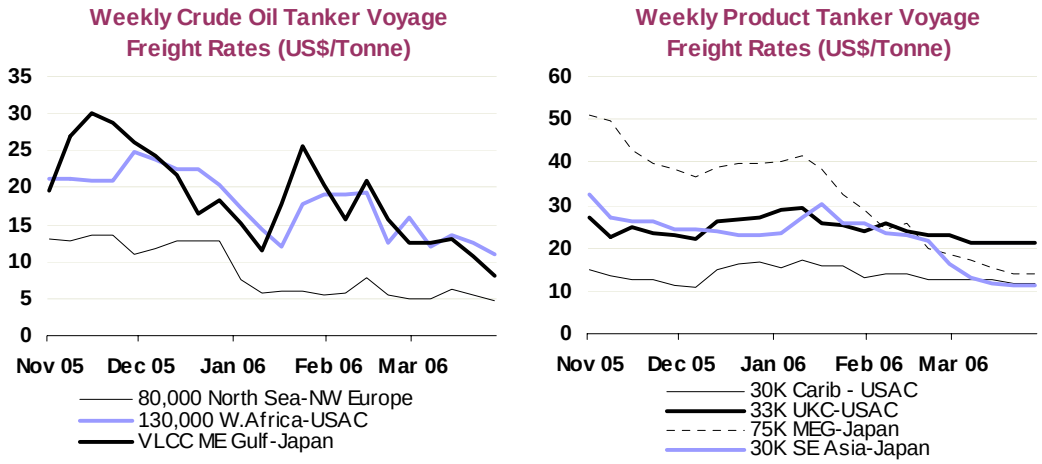


Freight

By the end of March freight rates had fallen to three-year lows. The decline followed easing post-winter product demand, widespread refinery maintenance curtailing crude oil requirements and relatively comfortable crude inventories in OECD countries.

Average spot VLCC rates from the Arabian Gulf to Japan were around $8/tonne at the start of April, the lowest observed rate since 2002 for this time of year. Having held around $12 per tonne for the first half of March, these rates subsequently fell as bookings for April loading began. Interest remained thin in view of lower crude demand associated with the seasonal beginning of Asian refinery turnarounds. These are expected to peak in late May and June. As a result, several time-chartered vessels, notably to Japanese companies, became surplus to requirements and were offered to the spot market, adding to the pull of available vessels.

Ongoing refinery maintenance in the US and Europe had a similar downward effect on charter rates for VLCCs trading west from the Middle East. The chartering of 260,000 tonne vessels travelling from the Arabian Gulf to the US Gulf cost on average $15/tonne on the spot market on 31 March. This represented a decrease from $22/tonne at the beginning of the month and the rate is now half of the $31/tonne peak reached in late January. Brimming crude stocks in the US also had a dampening effect on demand for foreign crude. Over the period, a weak premium for WTI over Brent in March made transatlantic arbitrage trade for Brent-related crudes less viable. With tanker rates bottoming out in late March and early April, US interest for lighter grades returned in view of the unwinding of scheduled maintenance by the second half of April.



Tanker movement data suggest that while total OPEC sailings decreased significantly in March, non-OPEC sailings rose. Chinese purchases of West African crude, especially from Angola, reached record levels for March-loading cargoes and appeared to continue into April as well. Average VLCC rates from West Africa to the Far East rose gradually throughout March to reach almost $22/tonne by 23 March. Demand for transportation on this route also spilled over into the Suezmax sector mid-month. Suezmax rates moved above $31/tonne by 20 March. However, by the end of the month, all rates from this region had corrected lower.

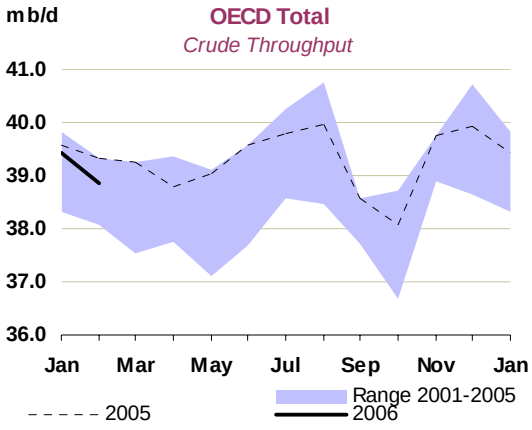
Aframax rates showed the firmest trends in the dirty sector in March. Fog conditions in Houston caused delays in shipping, pushing up costs for moving Venezuelan and Mexican crude and fuel oil to the US Gulf Coast to over $14/tonne by 15 March. This trade route may have also seen support as US interest shifted to shorter haul routes following Nigerian supply outages. Cross-Mediterranean rates bounced back from low levels of under $4/tonne in late February to about $8/tonne on 27 March.

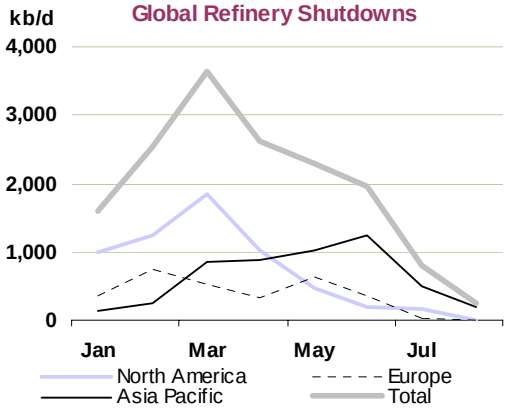
Maintenance at exporting refineries and importing petrochemical plants continued to place downward pressure on clean tanker rates throughout March. Shipping costs for large, clean cargoes from the Arabian Gulf to Japan fell to their lowest level for seven years. Only spot rates for the vessels below 30,000 tonnes deadweight avoided sharp declines, remaining by-and-large flat for movement of gasoline or diesel, in particular, around Europe.

REFINERY ACTIVITY

Summary

- **Full cost refining margins** continued their late February rally into March, as planned and unplanned refinery outages in the US and Caribbean region lifted global gasoline prices. On a regional basis, knock-on effects on gasoline cracks were more pronounced in Europe than in Asia, given stronger trade linkages. Sour crude cracking margins broadly outperformed sweet cracking margins in March, helped by the strength of high-sulphur relative to low-sulphur fuel oil cracks.





- **OECD throughputs** fell in February to 38.9 mb/d from January's revised level of 39.4 mb/d. Seasonal refinery maintenance shutdowns in North America account for most of the decline as small changes in Europe and the Pacific cancelled each other out. Pacific throughputs were at five-year highs as refiners aimed to meet strong demand in view of rapidly declining inventories.

- **OECD yield data** for January show combined kerosene and jet fuel yields in Japan rising to five-year highs to meet above-seasonal levels of heating demand. Combined yields rose to 20% of refinery output in January from 19.2% in December. Weekly data suggest that this trend continued into most of February before warmer weather and a weaker pace of inventory decline curtailed the need to maximise yield on these products.

Refining Margins

Strong gasoline cracks led margins higher in March across most refinery configurations surveyed in this Report. US refineries saw the strongest increases in margins as planned and unplanned refinery outages centred on the Gulf and West Coast and Caribbean refineries supported strongly rising gasoline prices. In particular, catalytic cracking unit (FCC) outages at the Hovensa refinery in the US Virgin Islands and Motiva's Port Arthur and Convent refineries reduced domestics gasoline output. ExxonMobil's Torrance refinery on the US West Coast was also reported to be running at a reduced rate throughout March, following reports of an unplanned shutdown which began in February.

These unexpected shutdowns coincided with the seasonal high point of US scheduled maintenance activity. Reports suggest that possibly as much as 11% of US FCC units were offline in March for planned work. In addition, there were reports of further delays to the restart of the 800 kb/d of hurricane-affected capacity on the Gulf Coast. As a result, US refinery throughputs fell to 14.2 mb/d in early March, causing lower production of conventional gasoline and prompting draws on stocks.

The consequent increase in US gasoline prices had two knock-on effects. Weekly data suggest that distillate yields suffered, falling from 20% in early March to 17% by the end of the month, as refiners maximised gasoline yields. In addition, strong US prices lifted European (and to a lesser extent Asian) gasoline cracks through arbitrage opportunities.

Selected Refining Margins in Major Refining Centres
($/BBL)

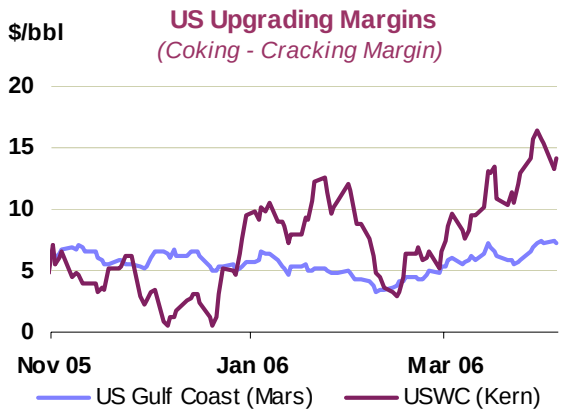
		Monthly Average			Change	Week Ending:				
		Jan 06	Feb 06	Mar 06	Mar 06-Feb 06	03 Mar	10 Mar	17 Mar	24 Mar	31 Mar
NW Europe	Brent (Cracking)	2.14	2.43	4.08	1.65	2.67	4.16	4.11	4.72	3.87
	Urals (Cracking)	4.33	4.33	6.93	2.60	4.30	6.52	7.34	8.59	6.73
	Brent (Hydroskimming)	-2.33	-0.82	-1.00	-0.18	-1.41	-0.80	-1.21	-0.77	-2.51
	Urals (Hydroskimming)	-2.43	-0.86	0.09	0.95	-1.78	-0.17	0.08	1.29	-1.09
Mediterranean	Es Sider (Cracking)	3.66	3.36	5.05	1.69	3.48	5.53	5.45	5.40	3.38
	Urals (Cracking)	4.34	3.92	6.17	2.26	3.76	6.77	6.68	6.95	4.84
	Es Sider (Hydroskimming)	-0.96	0.51	-0.18	-0.69	-0.82	0.40	0.00	0.00	-3.21
	Urals (Hydroskimming)	-3.04	-1.44	-0.89	0.55	-2.78	0.22	-0.70	-0.36	-3.04
US Gulf Coast	Brent (Cracking)	-1.68	-2.74	3.58	6.32	2.08	3.12	3.30	3.06	4.89
	LLS (Cracking)	0.94	0.54	7.04	6.50	5.39	6.34	7.31	7.40	9.12
	Mars (Cracking)	0.85	2.91	7.68	4.77	6.78	6.99	8.62	8.18	7.76
	Mars (Coking)	6.20	7.11	13.94	6.83	12.87	12.93	14.86	14.11	15.06
	Maya (Coking)	12.05	9.43	15.91	6.48	14.98	15.29	16.33	14.67	19.04
US West Coast	ANS (Cracking)	2.95	3.03	7.21	4.18	7.06	6.61	7.03	6.87	7.62
	Kern (Cracking)	4.39	6.66	10.34	3.68	10.80	10.22	9.71	9.23	8.14
	Oman (Cracking)	1.96	-0.44	5.33	5.76	3.92	2.85	4.55	6.74	6.88
	Kern (Coking)	14.32	12.56	21.80	9.24	20.51	19.64	20.52	22.19	23.44
Singapore	Dubai (Hydroskimming)	-2.96	-2.60	-0.24	2.36	-1.54	-0.02	0.04	-0.26	-0.03
	Tapis (Hydroskimming)	-8.38	-7.88	-5.07	2.81	-6.39	-5.31	-4.57	-4.58	-4.91
	Dubai (Hydrocracking)	0.87	-0.03	2.80	2.83	1.64	2.76	3.18	2.82	3.68
	Tapis (Hydrocracking)	-6.10	-6.00	-2.97	3.03	-4.00	-3.00	-2.61	-2.70	-2.84
China	Cabinda (Hydroskimming)	-4.07	-4.42	-4.76	-0.34	-4.58	-4.73	-4.56	-5.11	-4.48
	Daqing (Hydroskimming)	-5.62	-5.54	-4.96	0.57	-5.89	-6.28	-4.43	-4.32	-4.46
	Dubai (Hydroskimming)	-3.50	-3.24	-0.80	2.45	-2.12	-0.58	-0.56	-0.88	-0.38
	Daqing (Hydrocracking)	-1.54	-1.57	-1.17	0.40	-1.75	-2.08	-0.72	-0.95	-0.84
	Dubai (Hydrocracking)	0.30	-0.63	2.27	2.90	1.04	2.21	2.64	2.19	3.39

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.

OECD North America

In March, the US Gulf Coast generally saw the strongest increase on average in margins. Cracking margins on Light Louisiana Sweet rose by $6.50/bbl to an average of $7.04/bbl. Returns for this grade were enhanced by its high yield of diesel and low-yield of low-sulphur fuel. As such, cracking margins on LLS outperformed those on medium sour grades such as Mars despite globally firm premiums for sweet crudes following production outages in Nigeria and the North Sea.



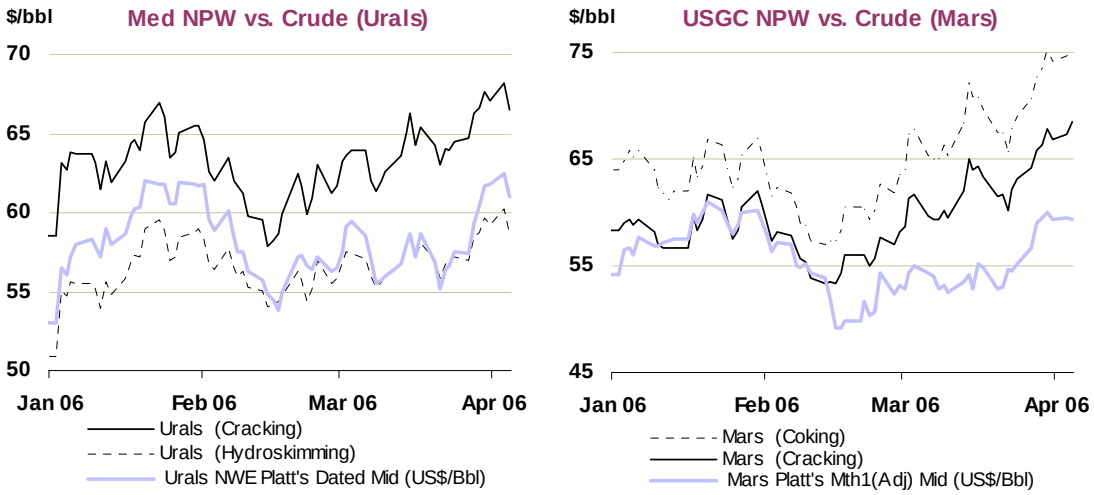
Gulf Coast gasoline cracks averaged over $14/bbl in March. This strength was primarily due to factors highlighted above, but also reflected an increased premium in the price of gasoline associated with the production of summer grade over easier to make winter grade material.

In May, the legal waiver on the use of MTBE in gasoline blending will lapse and the industry will phase out the oxygenate in favour of ethanol. Although industry leaders expect there to be sufficient ethanol to meet summer requirements, concerns remain that some localised supply dislocations may yet occur. Recently, high octane blending components have traded at increasing premiums to gasoline, reflecting partly the reduced flexibility refiners face in meeting these new specifications. However, the restart of refineries from planned and unplanned shut-downs, and hurricane-related

outages in the coming months should increase gasoline supply ahead of the summer driving season. West Coast margins were again among the highest of those surveyed in this Report, with Kern Coking margins surging $9.24/bbl to average $21.80/bbl in March. Unusually, the strength of regional gasoline prices opened arbitrage opportunities from the east, attracted gasoline exports from Asia.

OECD Europe

European margins were generally stronger in March, and as in the US, were bolstered by strong gasoline cracks. The return of colder weather to parts of Europe also helped to boost gasoil values. The exception was in light-sweet crude hydroskimming margins where lower demand for low-sulphur fuel oil from electricity utilities and tight sweet crude supplies caused cracks to ease by around $4/bbl. In contrast, Urals hydroskimming margins benefited from rising high-sulphur fuel oil cracks as large residual fuel oil exports from Northwest Europe to Asia reduced inventories in independent storage. Cracking Urals crude remains the most profitable refinery operation among configurations in Europe. Urals cracking margins averaged $6.17/bbl, an increase of $2.25/bbl. The strength of Urals cracking margins relative to its hydroskimming configuration was supported in large part by stable fuel oil differentials and the higher gasoline yield.



Asia

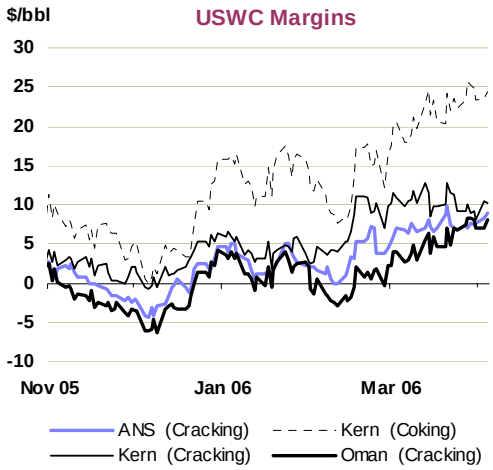
Asian margins, which are heavily reliant on distillate trends, picked up from the very low levels seen in February. Gasoil exports to Africa and Europe and turnaround activity in the Middle East helped to buoy gasoil prices. The strength of Atlantic Basin gasoline prices and the removal of China's export tax rebate on gasoline buttressed Asian cracking margins, but gains in Asian prices trailed those observed in the US and Europe. Lower refinery runs in Korea, a key product exporter in the region, in February and March have fed through into tighter product markets and higher margins in Asia. Low-sulphur waxy residue maintained its value compared to Tapis crude on strong demand from Japanese utilities wishing to replenish their stocks ahead of peak summer demand for electricity.

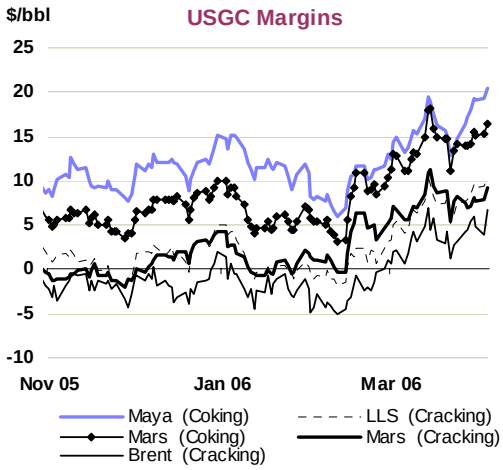
OECD Refinery Yields

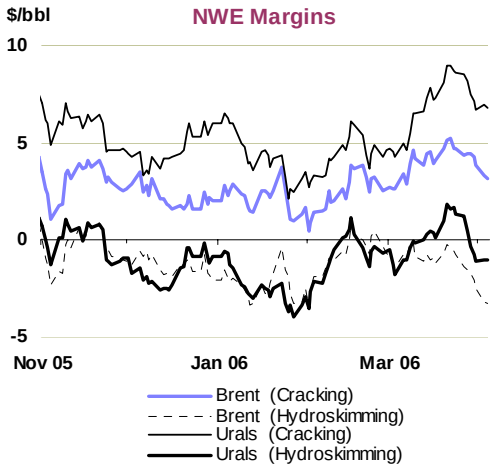
January refinery yield data suggest lower gasoline yields and increasing kerosene yields in line with seasonal norms. US gasoline yields continued to decline in January from the peak seen in the fourth quarter of 2005. Refiners appear to have shifted emphasis onto producing jet/kerosene within the month, with a slight knock-on reduction in gasoil yield.

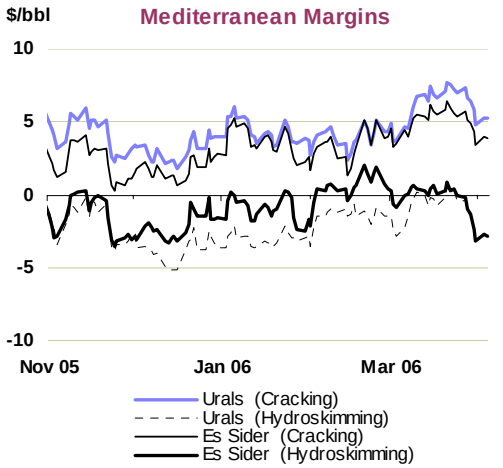
These trends are reflected across much of the OECD Pacific area where extremely cold weather in January resulted in increased jet/kerosene yields. In Japan jet/kerosene rose to a seasonal peak of 20% from 19.2% in December. Similarly in Korea jet/kerosene yields increased to 15.2% from 14% in December. European fuel oil yields increased in line with seasonal patterns, rising to 17.6% in January from 16.5%, in line with last year's levels. Jet fuel and kerosene yields in Europe mirrored the increases seen elsewhere, rising to 7.1% from 6.7%.

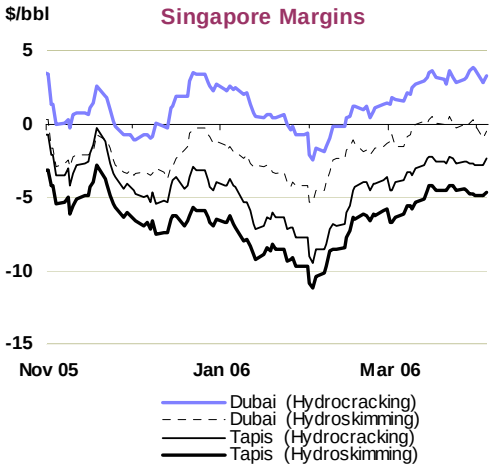
Regional Full-Cost Refining Margins

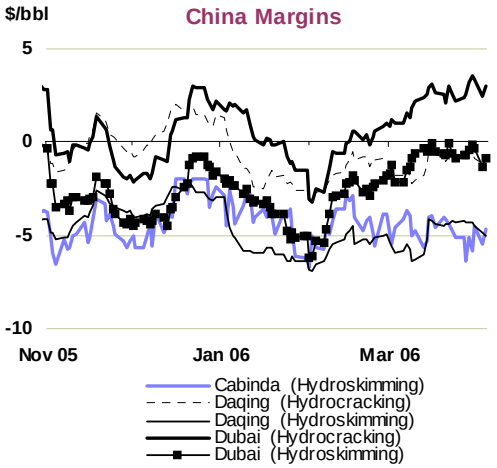












Refinery Throughput

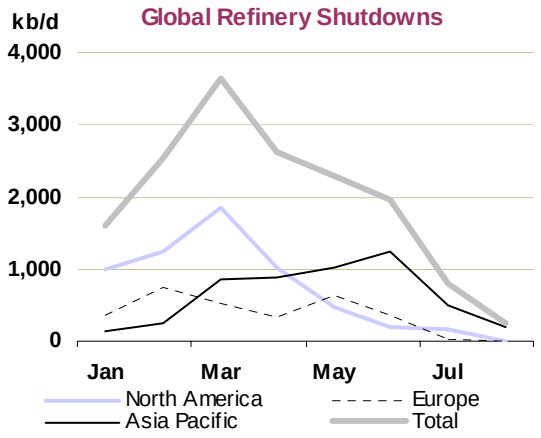
OECD refinery throughputs fell in February to 38.9 mb/d from downwardly revised January base of 39.4 mb/d and averaged 0.5 mb/d below February 2005. European throughputs were little changed but were 170 kb/d above a year ago. In contrast, North American throughputs hit their lowest level since last October as US refinery maintenance activity began. Reduced crude runs were also recorded in Canada and Mexico. In the Pacific, provisional data suggest that refiners eased back from the high levels of runs seen in January. In particular, Korean crude runs dropped by 90 kb/d as capacity utilisation rates fell from 98% to 95%. For the Pacific as a whole, refinery throughputs declined by 70 kb/d to 7.58 mb/d.

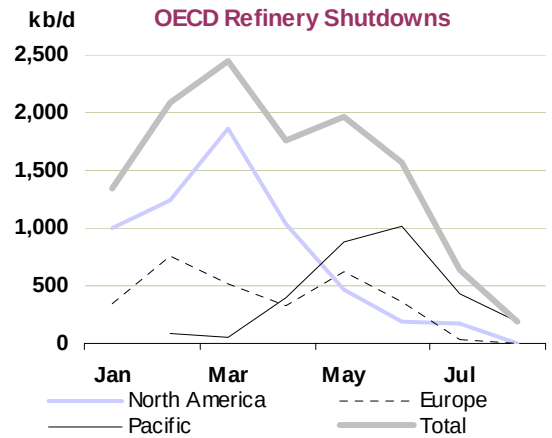
Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*	*Feb 05*	Utilisation rate[2]	
	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	mb/d	%	Feb 06	Feb 05
OECD North America										
US[3]	13.97	13.65	15.02	15.03	14.81	14.46	-0.65	-4.3	84.39	89.26
Canada	1.78	1.82	1.88	1.86	1.92	1.82	-0.07	-3.9	90.05	93.70
Mexico	1.28	1.18	1.18	1.31	1.33	1.23	-0.04	-3.1	73.23	71.96
Total	17.04	16.64	18.08	18.21	18.06	17.51	-0.77	-4.2	84.04	88.57
OECD Europe										
France	1.75	1.57	1.86	1.82	1.76	1.57	-0.15	-8.9	79.19	88.18
Germany	2.44	2.37	2.40	2.41	2.28	2.29	-0.04	-1.7	94.19	94.87
Italy	2.02	2.05	1.98	1.89	1.86	2.00	0.26	14.9	85.96	74.90
Netherlands	1.07	1.02	1.09	1.05	0.91	1.04	-0.01	-1.0	85.21	85.72
Spain	1.23	1.29	1.24	1.20	1.23	1.20	0.11	9.9	94.15	85.64
UK	1.71	1.71	1.64	1.68	1.59	1.60	0.00	0.2	85.38	87.60
Other OECD Europe	4.04	4.24	4.13	4.08	4.09	4.08	0.00	0.1	84.46	87.76
Total	14.27	14.25	14.34	14.14	13.71	13.77	0.17	1.2	86.45	86.67
OECD Pacific										
Japan	4.17	4.08	4.14	4.31	4.40	4.44	0.08	1.8	95.12	92.68
Korea	2.35	2.39	2.52	2.54	2.53	2.44	0.01	0.6	94.77	94.19
Other OECD Pacific	0.72	0.69	0.69	0.73	0.72	0.70	0.03	4.2	86.68	78.07
Total	7.25	7.16	7.34	7.58	7.65	7.58	0.12	1.7	94.16	91.62
OECD Total	38.56	38.06	39.77	39.93	39.42	38.86	-0.47	-1.2	86.71	88.46

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

Offline capacity within the OECD is thought to have peaked in March. More recent data suggest that the peak offline capacity will be 250 kb/d higher than previously estimated in last month's Report. Offline capacity in March is now estimated at about 2.5 mb/d and maintenance periods are expected to be more protracted. The upwardly revised figure for shutdown capacity stems mainly from delays in the restart of three US refineries that were idled following last year's US hurricanes and unplanned outages in March. The resumption of normal operations at these three refineries alongside the exit of planned maintenance of Atlantic Basin refineries is expected to be only partly offset by offline capacity related to maintenance in the Pacific region. As such, crude demand in the OECD is expected to rise by almost one million barrels per day over the second quarter.

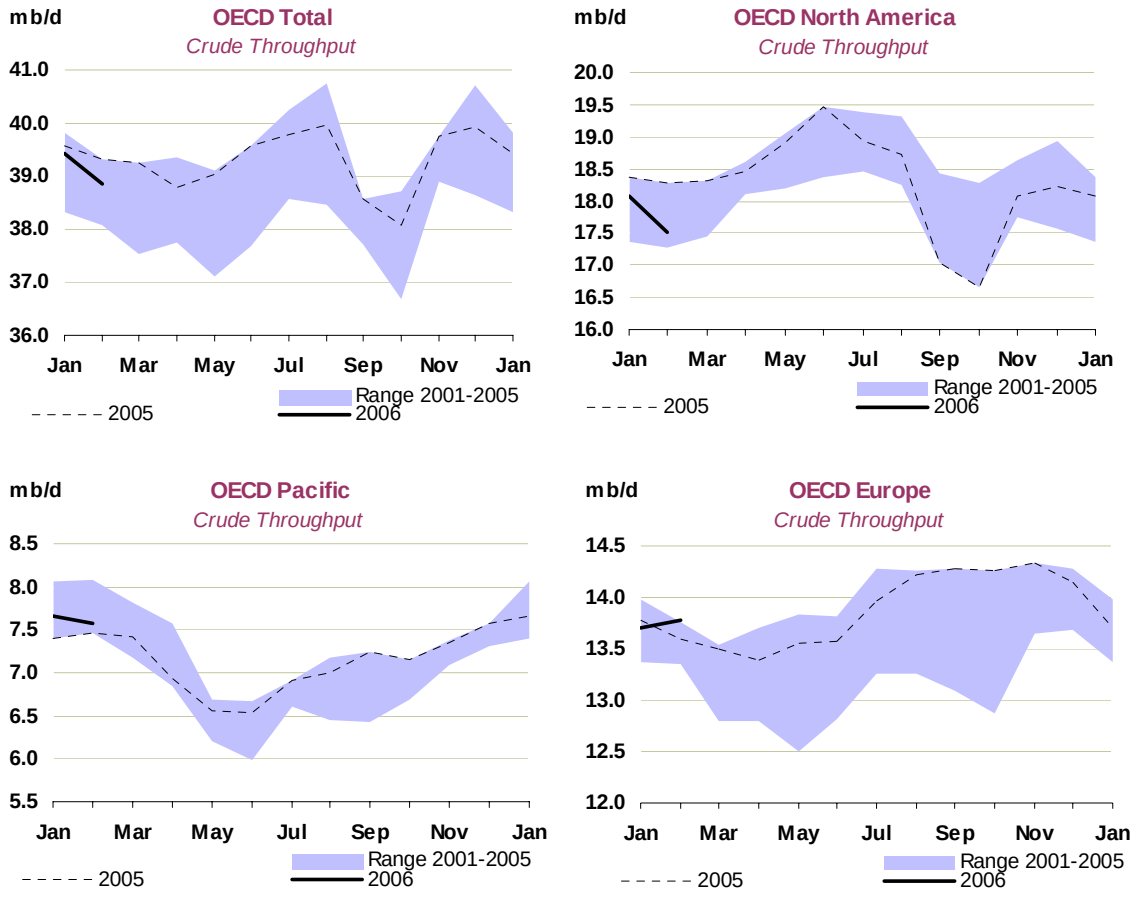




Reported offline refinery capacity on a global basis is similarly pushed higher by the protracted US outages. Capacity offline is estimated to peak in March at just over 3.5 mb/d. As a result, global crude demand should increase by around 1.6 mb/d over the course of the second quarter, and by as much again early in the third quarter.

OECD North America

Provisional data for the US suggest refiners processed 14.5 mb/d of crude in February, a utilisation rate of 84.4% for installed capacity. This increases to 88.5% when measured against reported available capacity. The adjusted utilisation rate is below February 2005 levels, confirming a higher level of maintenance activity as refiners work to meet tighter summer diesel-sulphur specifications. Preliminary weekly data suggest that US refinery activity remained subdued throughout March, at around 14.8 mb/d. Assuming no further delays to refinery restarts, crude runs should begin to pick-up over April with a potential to reach 16 mb/d by May.



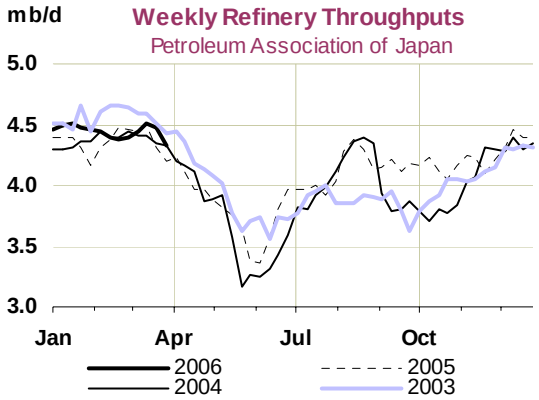
Mexican crude throughputs fell slightly from January to 1.2 mb/d, 3% lower than this time last year, but in line with the five-year average. Canadian crude runs fell by 100 kb/d to 1.82 mb/d in February from an upwardly revised 1.92 mb/d for January. Canadian data have been revised upwards by an average of 60 kb/d for the previous four months and January's provisional US estimate has been revised up by 50 kb/d to 14.8 mb/d.

OECD Europe

European refinery throughputs increased by 59 kb/d in February, averaging 13.8 mb/d. Declines in France and Sweden were largely accounted for by planned maintenance and increases in the Netherlands of 134 kb/d, and 138 kb/d in Italy reflected a return of capacity from a mixture of planned and unplanned outages. Refinery turnarounds continued in February in the UK, France Germany and Italy. Activity was centred mainly in Northwest Europe rather than the Mediterranean, though turnaround activity is expected to increase in the Mediterranean in April and May.

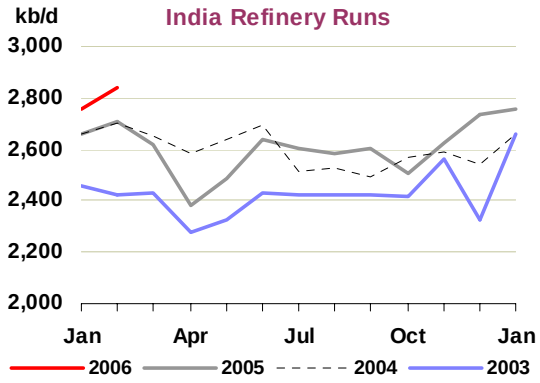
OECD Pacific

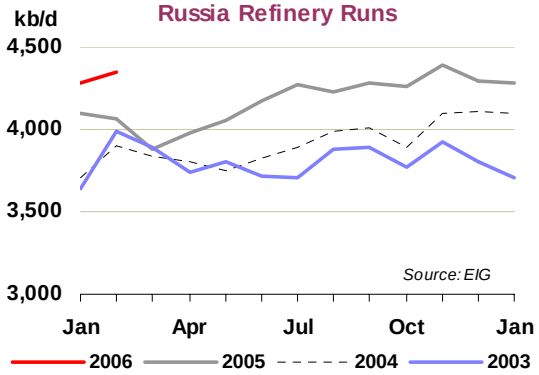
OECD Pacific throughputs dipped to an average of 7.6 mb/d in February, a utilisation rate of 94.2%. Korean runs were 90 kb/d lower at 2.4 mb/d and near February 2005 levels. This is equivalent to a utilisation rate of 94.8%. Japanese throughputs of 4.44 mb/d in February were slightly ahead of the downwardly revised January estimate of 4.40 mb/d. This represents a capacity utilisation rate of 95.1% for Japanese refineries, as they seek to prepare for the heavy second quarter turnaround season. Preliminary weekly data for Japan suggest that high throughput levels were maintained throughout March at around 4.4 mb/d.

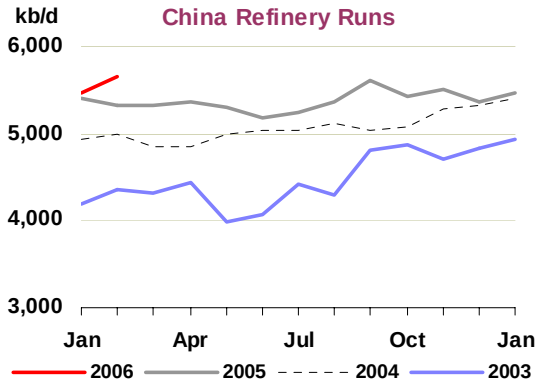


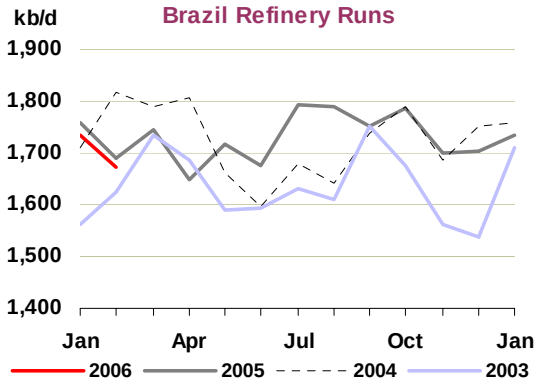
Non-OECD Throughputs

Chinese crude throughputs at CNPC and Sinpoec in February averaged 5.6 mb/d, up slightly from January's reduced estimate of 5.5 mb/d. March data should reveal lower throughputs as higher maintenance activity is expected to have reduced crude runs by around 200 kb/d. Maintenance work should continue at broadly similar levels until May. However, refinery runs are poised to rise again in the second half of the year, potential rising above historical averages as new refining capacity comes on stream. Russian throughputs are thought to have increased in February as the disruption from extremely cold weather that affected January runs eased. We estimate that throughputs averaged 4.4 mb/d, an increase of just under 300 kb/d year-on-year due to lower levels of refinery maintenance.









Indian refinery throughputs increased by 80 kb/d in February to 2.8 mb/d - another five-year high. March and April throughputs should be reduced by increased turnaround activity, which is expected to peak in April at around 200 kb/d. Brazilian crude throughputs in February were slightly lower than January at a fraction under 1.7 mb/d and just below February 2005 levels.

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	25.4	25.4	25.3	25.6	26.0	26.1	25.8
Europe	15.3	15.4	15.7	15.2	15.6	16.0	15.6	15.6	15.3	15.7	15.7	15.6	15.8	15.2	15.6	15.8	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.1	8.1	8.8	8.6	9.4	8.1	8.2	9.0	8.7
Total OECD	48.0	48.6	50.2	48.1	49.2	50.5	49.5	50.6	48.7	49.3	50.0	49.6	50.5	48.9	49.8	51.0	50.1
NON-OECD DEMAND																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.8	3.8	3.7	3.8	3.9	3.8	4.0	3.9	3.9	4.0	3.9
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	0.8	0.7	0.8	0.8
China	5.0	5.6	6.3	6.5	6.3	6.6	6.4	6.5	6.4	6.6	6.8	6.6	6.7	6.8	7.0	7.2	6.9
Other Asia	8.0	8.1	8.5	8.7	8.4	8.9	8.6	8.9	8.9	8.6	8.7	8.8	8.8	8.9	8.7	9.0	8.8
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	5.3	5.4	5.7	5.7	6.0	5.8	5.8	6.1	6.0	6.3	6.1	6.1	6.4	6.3	6.6	6.5	6.4
Africa	2.7	2.7	2.8	2.9	2.8	2.9	2.8	2.9	3.0	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	29.9	30.7	32.4	33.0	33.0	33.8	33.1	33.9	33.7	34.0	34.2	34.0	34.7	34.8	35.0	35.5	35.0
Total Demand[1]	77.8	79.4	82.6	81.2	82.1	84.3	82.5	84.5	82.4	83.3	84.2	83.6	85.2	83.7	84.8	86.5	85.1
OECD SUPPLY																	
North America	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.6	13.7	13.6	14.1	14.1	14.2	14.2	14.5	14.3
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.7	5.4	5.5	5.6	5.6	5.3	5.3	5.5	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	0.5	0.5	0.6	0.6	0.5
Total OECD	21.9	21.6	21.8	21.5	20.8	21.0	21.3	20.9	20.9	19.8	19.7	20.3	20.2	20.1	20.1	20.6	20.2
NON-OECD SUPPLY																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.5	11.5	11.7	11.9	11.6	11.7	12.1	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	3.7	3.7	3.7	3.7	3.7
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	4.0	4.1	4.1	4.1	4.1	4.2	4.3	4.3	4.3	4.3	4.3	4.4	4.5	4.7	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	1.8	1.8	1.8
Africa	3.0	3.0	3.3	3.3	3.4	3.5	3.4	3.5	3.5	3.8	3.9	3.7	3.9	4.0	4.2	4.3	4.1
Total Non-OECD	24.5	25.7	26.5	26.8	27.3	27.4	27.0	27.5	27.7	28.1	28.4	27.9	28.4	28.9	29.4	29.8	29.1
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	50.4	49.7	50.0	50.1	50.5	50.9	51.3	52.3	51.3
OPEC																	
Crude[4]	25.4	27.1	28.3	28.5	29.5	29.9	29.1	29.4	29.9	30.1	30.0	29.8	29.7				
NGLs	3.4	3.6	3.9	3.9	3.9	4.0	3.9	4.1	4.1	4.2	4.2	4.2	4.3	4.4	4.5	4.5	4.4
Total OPEC	28.8	30.7	32.2	32.3	33.4	33.9	33.0	33.5	34.0	34.3	34.3	34.0	34.0				
Total Supply[5]	76.9	79.7	82.3	82.5	83.3	84.2	83.1	83.7	84.4	84.0	84.3	84.1	84.5				
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	-0.4	0.1	-0.6	0.9	0.4	-0.3	0.1	0.0	0.9	0.2	-0.6	0.1					
Government	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.3	0.0	-0.1	0.1					
Total	-0.3	0.3	-0.4	0.9	0.5	-0.2	0.2	0.1	1.2	0.2	-0.7	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	0.0	0.1	-0.1					
Miscellaneous to balance[6]	-0.6	-0.1	0.4	0.5	0.5	-0.2	0.3	-0.4	0.7	0.5	0.6	0.4					
Total Stock Ch. & Misc	-0.9	0.4	-0.3	1.3	1.2	-0.1	0.5	-0.8	2.0	0.7	0.1	0.5	-0.7				
Memo items:																	
Call on OPEC crude + Stock ch.[7]	26.3	26.7	28.6	27.2	28.3	30.0	28.5	30.1	27.9	29.4	30.0	29.3	30.4	28.4	29.0	29.8	29.4
Total Demand ex. FSU	74.3	75.8	79.1	77.5	78.3	80.3	78.8	80.7	78.7	79.5	80.3	79.8	81.3	79.8	80.9	82.5	81.1
Total demand exc. FSU (% ch)[8]	1.2	1.9	3.7	5.0	3.7	3.5	4.0	2.1	1.6	1.5	0.0	1.3	0.7	1.5	1.7	2.7	1.7

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	-	-	-	-	-	-	-	-	-	-	-	-	-0.2	-	-	-0.1	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.3	0.1	-	-0.1	-0.1
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-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	0.1
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	0.1	0.1	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	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.4
Total Demand	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.1	0.5	0.5	0.3	0.3
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	0.1	-	-0.1	-0.1	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	0.1	-	-
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.2	0.1	0.1	-
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-	-	-					
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-	-	-	-					
Total Supply	-	-	-	-	-	-	-	-	-	-	-	-					
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-0.1	-	0.1	-	-	-	-					
Government	-	-	-	-	-	-	-	-	-	-	-	-					
Total	-	-	-	-	-	-0.1	-	0.1	-	-	0.1	-					
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-	-	-	-					
Miscellaneous to balance	-0.1	-0.2	-0.3	-0.3	-0.3	-0.2	-0.3	-0.5	-0.4	-0.3	-0.4	-0.4					
Total Stock Ch. & Misc	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3					
Memo items:																	
Call on OPEC crude + Stock ch.	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.2	0.7	0.4	0.2	0.4
Total Demand ex. FSU	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	-	0.4	0.5	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	25.03	25.41	25.67	25.34	25.53	25.30	25.47	25.43	25.43	25.33	25.58	25.97	26.14	25.76
Europe	15.43	15.66	15.20	15.60	16.02	15.62	15.56	15.31	15.71	15.73	15.58	15.77	15.22	15.57	15.84	15.60
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.10	8.12	8.83	8.63	9.44	8.11	8.21	9.01	8.69
Total OECD	48.65	50.17	48.13	49.17	50.47	49.49	50.57	48.71	49.29	49.99	49.64	50.54	48.91	49.76	50.99	50.05
FSU	3.59	3.51	3.72	3.79	4.00	3.76	3.82	3.71	3.79	3.89	3.80	3.97	3.87	3.89	4.01	3.94
Europe	0.69	0.78	0.73	0.68	0.74	0.73	0.80	0.75	0.69	0.75	0.75	0.83	0.76	0.70	0.76	0.76
China	5.58	6.28	6.53	6.32	6.60	6.43	6.55	6.41	6.63	6.76	6.59	6.74	6.85	6.99	7.21	6.95
Other Asia	8.06	8.54	8.65	8.43	8.87	8.62	8.90	8.85	8.64	8.73	8.78	8.80	8.86	8.68	8.95	8.82
Latin America	4.67	4.73	4.89	4.98	4.91	4.87	4.88	5.03	5.09	5.01	5.00	4.98	5.14	5.21	5.13	5.12
Middle East	5.41	5.73	5.67	6.01	5.84	5.81	6.05	5.99	6.32	6.13	6.13	6.37	6.31	6.64	6.46	6.45
Africa	2.73	2.83	2.85	2.76	2.86	2.82	2.93	2.95	2.83	2.93	2.91	3.00	3.03	2.90	3.01	2.98
Total Non-OECD	30.72	32.40	33.04	32.96	33.82	33.06	33.93	33.69	33.99	34.21	33.95	34.69	34.81	35.00	35.54	35.01
World	79.36	82.57	81.17	82.13	84.28	82.54	84.50	82.40	83.28	84.20	83.60	85.23	83.72	84.76	86.53	85.06
of which:																
US	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.80*	*20.66*	*20.86*	*20.75*	*20.77*	*20.66*	*20.91*	*21.21*	*21.31*	*21.02*
Euro4	*8.30*	*8.39*	*8.10*	*8.36*	*8.48*	*8.34*	*8.19*	*8.06*	*8.37*	*8.25*	*8.22*	*8.27*	*7.99*	*8.19*	*8.25*	*8.17*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.99*	*5.08*	*5.51*	*5.41*	*6.07*	*4.96*	*5.10*	*5.61*	*5.43*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.00*	*2.22*	*2.17*	*2.32*	*2.08*	*2.04*	*2.31*	*2.19*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.04*	*2.07*	*2.05*	*2.07*	*2.11*	*2.11*	*2.13*	*2.11*
Canada	*2.21*	*2.30*	*2.20*	*2.31*	*2.35*	*2.29*	*2.35*	*2.23*	*2.23*	*2.26*	*2.26*	*2.23*	*2.22*	*2.30*	*2.33*	*2.27*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.11*	*2.17*	*2.24*	*2.20*	*2.18*	*2.16*	*2.21*	*2.29*	*2.25*	*2.23*
India	*2.48*	*2.64*	*2.64*	*2.44*	*2.61*	*2.58*	*2.74*	*2.60*	*2.48*	*2.57*	*2.59*	*2.75*	*2.66*	*2.52*	*2.64*	*2.64*
Annual Change (% per annum)																
North America	1.7	3.1	3.8	2.9	3.4	3.3	1.2	1.1	0.2	-0.9	0.4	-0.8	1.1	2.0	2.8	1.3
Europe	1.0	1.4	0.4	0.9	2.3	1.3	-0.7	0.7	0.7	-1.8	-0.3	1.4	-0.5	-0.9	0.7	0.2
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.5	-0.5	0.6	1.2	-0.5	0.1	1.2	2.1	0.7
Total OECD	1.4	1.1	1.7	2.2	1.9	1.7	0.8	1.2	0.3	-0.9	0.3	-0.1	0.4	0.9	2.0	0.8
FSU	3.2	-8.2	16.0	10.5	2.8	4.7	8.6	-0.3	-0.1	-2.7	1.2	4.1	4.3	2.7	3.1	3.5
Europe	3.8	6.1	6.2	6.7	6.8	6.5	2.6	2.6	2.0	1.8	2.2	2.8	1.7	1.8	1.8	2.1
China	11.0	18.0	23.4	9.2	12.0	15.4	4.3	-1.9	4.9	2.4	2.4	3.0	6.9	5.4	6.7	5.5
Other Asia	1.3	7.5	9.7	5.7	5.1	7.0	4.3	2.3	2.4	-1.5	1.8	-1.2	0.1	0.4	2.5	0.5
Latin America	-1.8	5.2	5.3	4.2	3.1	4.4	3.1	3.0	2.4	2.1	2.6	2.2	2.1	2.3	2.3	2.2
Middle East	2.0	6.8	10.4	6.9	6.2	7.5	5.6	5.7	5.2	4.9	5.4	5.2	5.3	5.0	5.4	5.2
Africa	1.7	2.9	3.8	3.9	3.0	3.4	3.5	3.5	2.7	2.5	3.0	2.4	2.5	2.5	2.5	2.5
Total Non-OECD	2.9	6.5	11.6	6.8	5.9	7.6	4.7	2.0	3.1	1.2	2.7	2.3	3.3	3.0	3.9	3.1
World	2.0	3.2	5.5	4.0	3.4	4.0	2.3	1.5	1.4	-0.1	1.3	0.9	1.6	1.8	2.8	1.8
Annual Change (mb/d)																
North America	0.40	0.76	0.93	0.70	0.85	0.81	0.31	0.27	0.06	-0.24	0.10	-0.20	0.28	0.50	0.71	0.32
Europe	0.16	0.22	0.05	0.14	0.36	0.20	-0.11	0.10	0.11	-0.29	-0.05	0.21	-0.08	-0.14	0.11	0.02
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.20	-0.04	0.06	0.10	-0.05	0.00	0.10	0.18	0.06
Total OECD	0.69	0.57	0.79	1.07	0.92	0.84	0.40	0.58	0.12	-0.47	0.15	-0.03	0.20	0.46	1.00	0.41
FSU	0.11	-0.31	0.51	0.36	0.11	0.17	0.30	-0.01	0.00	-0.11	0.05	0.16	0.16	0.10	0.12	0.13
Europe	0.03	0.05	0.04	0.04	0.05	0.04	0.02	0.02	0.01	0.01	0.02	0.02	0.01	0.01	0.01	0.02
China	0.55	0.96	1.24	0.53	0.71	0.86	0.27	-0.12	0.31	0.16	0.15	0.20	0.44	0.36	0.45	0.36
Other Asia	0.11	0.59	0.76	0.46	0.43	0.56	0.37	0.20	0.20	-0.13	0.16	-0.10	0.00	0.04	0.22	0.04
Latin America	-0.09	0.23	0.25	0.20	0.15	0.21	0.15	0.14	0.12	0.10	0.13	0.11	0.11	0.12	0.12	0.11
Middle East	0.11	0.37	0.53	0.39	0.34	0.41	0.32	0.33	0.31	0.29	0.31	0.31	0.32	0.32	0.33	0.32
Africa	0.05	0.08	0.10	0.10	0.08	0.09	0.10	0.10	0.07	0.07	0.09	0.07	0.07	0.07	0.07	0.07
Total Non-OECD	0.86	1.96	3.44	2.09	1.87	2.34	1.53	0.65	1.03	0.39	0.90	0.76	1.12	1.02	1.33	1.06
World	1.55	2.53	4.23	3.16	2.79	3.18	1.93	1.23	1.15	-0.08	1.05	0.73	1.32	1.48	2.33	1.47
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-	-	-0.01	-	-	-	-	0.03	0.01	-0.22	0.01	0.03	-0.05	-0.06
Europe	-	-	-	-	-	-	-	0.01	-	-	-	0.02	0.03	0.02	-0.05	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-0.06	0.02	-	0.04	-
Total OECD	-	-	-	-	-0.01	-	-	0.01	-	0.03	0.01	-0.27	0.06	0.05	-0.06	-0.06
FSU	-	-	-	-	-	-	-	-	-	-0.01	-	0.10	0.03	-	-	0.03
Europe	-	0.03	0.02	0.02	0.03	0.03	0.03	0.03	0.02	0.03	0.03	0.03	0.03	0.02	0.03	0.03
China	-	-	-	-	-	-	-	-	-	-	-	-0.09	-	-	-0.04	-0.03
Other Asia	0.01	0.07	0.08	0.04	0.06	0.06	0.08	0.07	0.05	0.05	0.06	0.04	0.06	0.10	0.09	0.07
Latin America	-	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03	-0.02	0.01	0.03	0.02	0.03	-	0.02
Middle East	0.13	0.19	0.19	0.20	0.20	0.20	0.22	0.23	0.22	0.21	0.22	0.24	0.25	0.25	0.24	0.25
Africa	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Total Non-OECD	0.15	0.31	0.32	0.30	0.32	0.31	0.36	0.35	0.34	0.28	0.33	0.37	0.40	0.41	0.33	0.38
World	0.15	0.31	0.32	0.30	0.30	0.31	0.36	0.36	0.34	0.30	0.34	0.10	0.46	0.46	0.26	0.32
Revisions to Oil Demand Growth from Last Month's Report (mb/d)																
World	0.02	0.16	0.17	0.14	0.15	0.16	0.05	0.04	0.04	0.00	0.03	-0.26	0.10	0.12	-0.04	-0.02

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	4Q05	1Q06	2Q06	3Q06	4Q06	Jan 06	Feb 06	Mar 06
OPEC											
Crude Oil											
Saudi Arabia	8.75	9.15		9.21	9.17				9.15	9.15	9.21
Iran	3.93	3.88		3.89	3.81				3.70	3.92	3.82
Iraq	1.99	1.81		1.66	1.71				1.50	1.84	1.81
UAE	2.35	2.46		2.60	2.52				2.54	2.47	2.55
Kuwait	2.05	2.13		2.20	2.22				2.22	2.22	2.22
Neutral Zone	0.60	0.58		0.58	0.59				0.60	0.59	0.58
Qatar	0.77	0.80		0.82	0.82				0.82	0.82	0.82
Nigeria	2.32	2.40		2.45	2.23				2.35	2.27	2.08
Libya	1.55	1.64		1.65	1.67				1.65	1.67	1.68
Algeria	1.20	1.34		1.37	1.36				1.36	1.36	1.36
Venezuela	2.59	2.71		2.65	2.63				2.65	2.64	2.60
Indonesia	0.97	0.94		0.94	0.92				0.92	0.92	0.93
Total Crude Oil	29.06	29.85		30.02	29.65				29.46	29.86	29.65
Total NGLs[1]	3.91	4.16	4.43	4.24	4.34	4.42	4.48	4.50	4.34	4.33	4.34
Total OPEC	32.97	34.01		34.26	33.99				33.80	34.19	33.99
NON-OPEC[2]											
OECD											
North America	14.58	14.09	14.25	13.64	14.09	14.20	14.24	14.48	14.16	14.07	14.02
United States	7.66	7.27	7.27	6.62	7.14	7.23	7.36	7.36	7.14	7.14	7.13
Mexico	3.83	3.76	3.73	3.72	3.78	3.75	3.71	3.68	3.81	3.75	3.77
Canada	3.09	3.05	3.25	3.30	3.17	3.22	3.17	3.44	3.21	3.18	3.12
Europe	6.10	5.64	5.41	5.50	5.59	5.35	5.26	5.46	5.67	5.60	5.52
UK	2.06	1.83	1.74	1.78	1.86	1.72	1.62	1.75	1.90	1.88	1.81
Norway	3.19	2.97	2.89	2.92	2.93	2.84	2.86	2.94	2.96	2.92	2.92
Others	0.85	0.84	0.79	0.81	0.80	0.79	0.78	0.77	0.81	0.80	0.80
Pacific	0.58	0.58	0.55	0.56	0.50	0.52	0.57	0.61	0.45	0.53	0.52
Australia	0.54	0.54	0.50	0.52	0.45	0.48	0.53	0.56	0.40	0.48	0.48
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	20.31	20.22	19.70	20.18	20.07	20.07	20.55	20.28	20.19	20.06
NON-OECD											
Former USSR	11.22	11.63	12.09	11.89	11.74	12.06	12.19	12.36	11.61	11.72	11.90
Russia	9.23	9.48	9.75	9.64	9.54	9.71	9.80	9.94	9.50	9.50	9.61
Others	1.99	2.15	2.34	2.25	2.20	2.35	2.40	2.42	2.11	2.22	2.29
Asia	6.25	6.34	6.48	6.37	6.45	6.49	6.49	6.50	6.46	6.46	6.43
China	3.48	3.62	3.68	3.59	3.66	3.67	3.69	3.70	3.68	3.66	3.63
Malaysia	0.86	0.83	0.83	0.85	0.84	0.84	0.82	0.82	0.84	0.84	0.84
India	0.80	0.77	0.81	0.75	0.79	0.82	0.82	0.83	0.78	0.79	0.79
Others	1.11	1.13	1.16	1.18	1.16	1.17	1.16	1.15	1.16	1.17	1.16
Europe	0.17	0.16	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Latin America	4.07	4.28	4.48	4.32	4.33	4.40	4.51	4.66	4.35	4.31	4.34
Brazil	1.79	1.98	2.18	2.02	2.06	2.09	2.20	2.36	2.05	2.07	2.06
Argentina	0.80	0.78	0.75	0.76	0.75	0.76	0.75	0.74	0.76	0.73	0.77
Colombia	0.53	0.53	0.53	0.53	0.53	0.53	0.54	0.54	0.53	0.54	0.53
Ecuador	0.53	0.53	0.55	0.55	0.52	0.55	0.56	0.56	0.54	0.51	0.52
Others	0.42	0.47	0.46	0.46	0.47	0.46	0.46	0.46	0.47	0.47	0.46
Middle East[3]	1.92	1.83	1.80	1.81	1.81	1.81	1.80	1.79	1.81	1.80	1.82
Oman	0.79	0.77	0.76	0.76	0.76	0.76	0.76	0.75	0.76	0.75	0.77
Syria	0.49	0.46	0.43	0.44	0.44	0.43	0.43	0.42	0.44	0.44	0.44
Yemen	0.41	0.41	0.42	0.41	0.41	0.42	0.42	0.42	0.42	0.41	0.41
Africa	3.37	3.67	4.13	3.87	3.92	4.05	4.23	4.33	3.91	3.92	3.93
Egypt	0.71	0.70	0.69	0.70	0.69	0.69	0.69	0.69	0.69	0.70	0.69
Angola	0.99	1.25	1.47	1.39	1.42	1.39	1.50	1.58	1.42	1.41	1.42
Gabon	0.24	0.23	0.23	0.24	0.24	0.24	0.23	0.23	0.24	0.24	0.24
Others	1.44	1.50	1.74	1.55	1.57	1.73	1.81	1.83	1.56	1.57	1.59
Total Non-OECD	27.01	27.93	29.14	28.42	28.41	28.95	29.38	29.79	28.30	28.36	28.57
Processing Gains[4]	1.83	1.86	1.90	1.88	1.92	1.89	1.88	1.92	1.92	1.92	1.92
TOTAL NON-OPEC	50.10	50.10	51.25	50.00	50.50	50.91	51.32	52.27	50.49	50.47	50.55
TOTAL SUPPLY	83.07	84.11		84.26	84.49				84.29	84.66	84.53

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			
	Oct2005	Nov2005	Dec2005	Jan2006	Feb2006*	Feb2003	Feb2004	Feb2005	1Q2005	2Q2005	3Q2005	4Q2005
North America												
Crude	449.5	452.1	454.3	440.1	452.3	375.5	400.3	425.9	0.38	0.14	-0.15	0.22
Motor Gasoline	229.2	230.8	234.8	254.6	256.0	236.4	234.9	258.2	0.00	0.00	-0.19	0.08
Middle Distillate	198.1	210.1	213.1	221.6	215.4	165.2	180.0	189.7	-0.26	0.17	0.08	0.16
Residual Fuel Oil	43.4	47.4	44.3	50.6	51.4	39.0	49.1	50.0	-0.02	-0.03	-0.04	0.02
Total Products[3]	662.7	672.6	658.8	690.0	674.3	574.1	601.0	652.4	-0.32	0.57	-0.16	-0.05
Total[4]	1274.6	1283.9	1254.2	1268.8	1266.2	1077.6	1143.4	1221.6	0.08	0.82	-0.19	-0.03
Europe												
Crude	334.1	326.5	326.7	329.8	325.3	298.5	320.0	328.6	0.24	-0.06	0.01	-0.13
Motor Gasoline	110.0	111.3	114.0	120.3	120.6	123.0	122.3	130.2	0.07	-0.19	0.02	0.09
Middle Distillate	264.1	259.3	256.1	267.5	260.1	213.7	229.3	239.3	0.05	-0.03	0.18	-0.04
Residual Fuel Oil	77.2	77.3	73.6	74.5	71.0	69.8	74.2	69.9	-0.07	0.04	0.04	-0.02
Total Products[3]	554.3	549.2	546.0	564.6	554.0	502.7	525.0	542.0	0.06	-0.23	0.25	0.04
Total[4]	963.3	951.0	945.1	967.0	951.0	869.8	919.0	940.7	0.33	-0.32	0.31	-0.13
Pacific												
Crude	174.6	166.1	157.4	156.1	161.5	168.8	181.9	168.4	-0.02	0.08	-0.09	-0.12
Motor Gasoline	24.4	24.2	22.5	24.9	25.3	24.5	26.3	27.1	0.01	-0.01	-0.02	0.00
Middle Distillate	84.4	78.9	61.0	62.6	63.0	60.5	60.9	58.2	-0.29	0.11	0.21	-0.18
Residual Fuel Oil	24.0	23.2	20.5	21.3	21.1	22.5	21.9	21.6	-0.01	0.02	0.01	-0.04
Total Products[3]	202.0	191.4	167.4	169.0	170.9	168.3	171.1	171.3	-0.37	0.20	0.20	-0.26
Total[4]	452.3	431.8	393.8	392.8	398.4	408.0	421.8	407.0	-0.45	0.36	0.11	-0.42
Total OECD												
Crude	958.2	944.8	938.5	925.9	939.1	842.7	902.2	923.0	0.60	0.16	-0.22	-0.02
Motor Gasoline	363.5	366.3	371.3	399.8	401.9	383.9	383.5	415.5	0.08	-0.19	-0.19	0.17
Middle Distillate	546.5	548.4	530.1	551.7	538.4	439.4	470.2	487.1	-0.51	0.25	0.47	-0.06
Residual Fuel Oil	144.5	147.9	138.4	146.4	143.5	131.2	145.2	141.5	-0.10	0.03	0.01	-0.04
Total Products[3]	1418.9	1413.2	1372.3	1423.7	1399.2	1245.2	1297.1	1365.7	-0.63	0.54	0.29	-0.26
Total[4]	2690.2	2666.7	2593.1	2628.6	2615.6	2355.4	2484.2	2569.2	-0.04	0.86	0.23	-0.57

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			
	Oct2005	Nov2005	Dec2005	Jan2006	Feb2006*	Feb2003	Feb2004	Feb2005	1Q2005	2Q2005	3Q2005	4Q2005
North America												
Crude	685.2	685.6	684.5	683.5	684.4	599.3	646.9	682.0	0.14	0.09	-0.03	-0.10
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	167.0	167.7	166.9	169.5	169.5	155.9	156.9	164.0	-0.04	0.01	0.02	0.00
Products	236.8	236.5	239.0	235.9	235.9	203.9	213.7	211.7	0.04	0.26	0.02	0.02
Pacific												
Crude	381.1	380.5	381.6	380.0	380.0	383.0	384.7	384.5	0.00	-0.01	-0.01	-0.01
Products	11.2	11.3	11.5	11.6	11.3	9.5	11.0	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1233.3	1233.9	1233.0	1233.0	1233.9	1138.1	1188.5	1230.6	0.10	0.09	-0.02	-0.11
Products	250.0	249.8	252.5	249.5	249.2	215.4	226.8	224.8	0.04	0.26	0.02	0.02
Total[4]	1484.3	1484.6	1486.5	1483.4	1484.0	1354.5	1416.2	1456.3	0.14	0.35	0.00	-0.08

* 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 2004		End March 2005		End June 2005		End September 2005		End December 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	160.0	68	164.8	74	164.7	74	170.5	76	176.9	-
Mexico	41.3	21	44.2	21	45.6	22	52.8	25	43.9	-
United States[4]	1646.8	80	1658.8	81	1740.5	84	1707.4	82	1697.9	-
Total[4]	1870.3	74	1889.9	75	1972.9	78	1952.9	77	1940.8	77
Pacific										
Australia	33.2	38	34.8	38	35.7	40	34.1	37	32.7	-
Japan	635.3	105	604.9	121	629.4	124	637.9	116	612.1	-
Korea	149.4	62	137.4	67	142.5	71	145.4	65	134.9	-
New Zealand	8.0	49	7.9	53	9.0	64	7.9	49	7.2	-
Total	825.9	87	785.0	97	816.6	101	825.3	93	786.8	83
Europe[5]										
Austria	21.0	75	20.6	70	20.2	67	19.9	68	19.0	-
Belgium	27.2	40	26.9	48	27.8	53	30.3	48	28.6	-
Czech Republic	16.3	85	17.0	78	15.9	70	16.7	79	18.8	-
Denmark	16.2	86	16.3	89	17.2	96	20.5	111	20.3	-
Finland	24.4	110	26.2	125	27.0	122	27.3	124	25.1	-
France	186.2	90	187.4	99	185.6	94	191.4	99	195.6	-
Germany	267.2	106	280.5	111	279.4	102	275.8	105	282.6	-
Greece	35.7	77	35.7	97	32.6	83	34.6	74	34.6	-
Hungary	16.2	128	19.6	137	17.0	109	17.1	108	17.6	-
Ireland	12.0	60	10.6	58	11.6	63	13.2	65	11.6	-
Italy	135.8	73	133.7	75	132.1	75	137.0	73	132.0	-
Luxembourg	0.9	14	0.9	13	0.8	13	0.8	12	0.8	-
Netherlands	108.3	109	109.4	103	116.6	114	115.7	115	116.4	-
Norway	26.6	109	29.2	130	21.0	88	30.2	99	30.7	-
Poland	30.6	74	33.9	79	34.5	72	33.8	71	35.2	-
Portugal	24.3	69	25.6	77	26.5	77	26.8	81	25.7	-
Slovak Republic	6.2	95	7.0	99	6.5	85	6.4	83	6.4	-
Spain	119.8	72	126.7	80	129.4	82	131.7	84	128.6	-
Sweden	33.8	93	32.0	88	35.4	99	34.6	94	38.0	-
Switzerland	36.3	131	37.1	147	38.0	135	38.9	137	37.7	-
Turkey	55.3	100	55.4	80	52.2	76	50.8	82	51.2	-
United Kingdom	104.1	60	102.2	55	102.3	54	108.7	59	95.6	-
Total	1304.3	84	1333.8	87	1329.6	85	1362.1	87	1352.0	86
Total OECD	4000.4	79	4008.7	83	4119.1	84	4140.3	83	4079.6	81
DAYS OF IEA Net Imports[6]	-	113	-	113	-	116	-	116	-	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 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]*		
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	4016	1435	2581	80	28	51
4Q2004	4000	1450	2550	79	29	51
1Q2005	4009	1462	2546	83	30	52
2Q2005	4119	1494	2625	84	30	53
3Q2005	4140	1494	2646	83	30	53
4Q2005	4080	1487	2593	81	29	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 4Q2005 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2003	2004	2005	1Q05	2Q05	3Q05	4Q05	Nov 05	Dec 05	Jan 06	Year Earlier Jan 05	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.55	0.46	0.45	0.45	0.41	0.53	0.49	0.65	0.40	0.49	-0.09
Europe	1.00	1.03	0.90	0.88	0.88	0.92	0.91	0.97	0.85	0.70	0.95	-0.24
Pacific	1.18	1.24	1.31	1.40	1.22	1.25	1.37	1.50	1.35	1.33	1.41	-0.08
Saudi Medium												
North America	0.83	0.80	0.81	0.97	0.89	0.58	0.81	0.84	0.99	0.60	0.88	-0.27
Europe	0.11	0.11	0.16	0.12	0.13	0.20	0.16	0.18	0.15	0.15	0.13	0.02
Pacific	0.24	0.23	0.26	0.21	0.24	0.27	0.32	0.33	0.36	0.35	0.25	0.10
Saudi Heavy												
North America	0.30	0.22	0.17	0.18	0.15	0.20	0.16	0.14	0.21	0.22	0.21	0.01
Europe	0.19	0.23	0.23	0.19	0.20	0.27	0.26	0.26	0.18	0.09	0.21	-0.12
Pacific	0.16	0.15	0.25	0.25	0.20	0.26	0.29	0.31	0.32	0.23	0.14	0.09
Iraqi Basrah Light[2]												
North America	0.44	0.71	0.60	0.56	0.69	0.56	0.59	0.53	0.58	0.46	0.62	-0.15
Europe	0.09	0.21	0.23	0.19	0.19	0.24	0.31	0.29	0.35	0.29	0.10	0.19
Pacific	0.03	0.12	0.06	0.07	0.06	0.06	0.06	0.03	0.08	0.08	0.12	-0.04
Iraqi Kirkuk												
North America	0.06	0.02	..	..	..	..	..	..	..	..	..	..
Europe	0.12	0.08	0.05	0.02	0.04	0.13	0.03	0.02	0.02	..	0.03	..
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.19	0.24	0.20	0.23	0.18	0.16	0.22	0.14	0.29	0.12	0.24	-0.12
Pacific	0.17	0.16	0.15	0.19	0.13	0.14	0.15	0.12	0.17	0.16	0.18	-0.03
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.59	0.57	0.63	0.62	0.63	0.71	0.57	0.73	0.44	0.38	0.64	-0.26
Pacific	0.69	0.65	0.62	0.76	0.59	0.52	0.63	0.56	0.79	0.52	0.77	-0.25
Venezuelan Light & Medium												
North America	0.69	0.67	0.82	0.78	0.88	0.79	0.81	0.76	0.89	0.67	0.76	-0.08
Europe	0.02	0.01	0.04	0.02	0.03	0.06	0.07	0.17	0.02	0.11	..	..
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.60	0.88	0.72	0.83	0.82	0.66	0.56	0.52	0.65	0.76	0.89	-0.12
Europe	0.06	0.05	0.06	0.06	0.06	0.08	0.06	0.04	0.06	0.10	0.05	0.05
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	1.32	1.36	1.27	1.30	1.36	1.17	1.25	1.25	1.38	1.22	1.35	-0.12
Europe	0.16	0.16	0.17	0.18	0.17	0.16	0.18	0.13	0.15	0.14	0.16	-0.02
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.00	..	0.03	0.01	0.00	0.02	0.10	0.06	0.13	0.07	0.00	0.07
Europe	0.00	0.01	0.03	0.02	0.01	0.02	0.05	0.07	..	0.02	0.03	-0.02
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.14	0.12	0.13	0.14	0.14	0.16	0.09	0.08	0.00	..	0.04	..
Europe	1.62	1.86	1.77	1.72	1.93	1.76	1.69	1.61	1.63	1.55	1.63	-0.08
Pacific	0.00	0.01	0.00	..	0.00	0.01	..	..	..	..	..	..
Nigerian Light[4]												
North America	0.63	0.80	0.90	0.87	0.88	0.94	0.90	1.01	0.86	0.84	0.80	0.04
Europe	0.41	0.28	0.35	0.30	0.27	0.41	0.41	0.32	0.55	0.22	0.34	-0.13
Pacific	0.08	0.11	0.05	0.06	0.06	0.07	0.02	..	..	0.14	0.07	0.07
Nigerian Medium												
North America	0.17	0.23	0.17	0.18	0.22	0.13	0.15	0.15	0.27	0.19	0.27	-0.08
Europe	0.06	0.04	0.07	0.07	0.04	0.08	0.07	0.10	0.05	0.07	0.07	0.00
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)

	2003	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Nov-05	Dec-05	Jan-06	Year Earlier Jan-05	Year Earlier % change
Crude Oil												
North America	8069	8439	8384	8577	8614	8251	8102	8476	7851	7540	8424	-12%
Europe	9096	9477	9820	9695	9506	10082	9993	10041	9794	9534	9841	-3%
Pacific	6711	6659	6801	7166	6434	6643	6967	6733	7120	7250	7310	-1%
Total OECD	23876	24576	25006	25438	24555	24975	25062	25249	24766	24324	25575	-5%
LPG												
North America	27	24	18	23	3	18	30	9	47	4	18	-300%
Europe	193	225	217	293	149	207	220	195	250	299	311	-4%
Pacific	541	541	527	532	591	500	486	485	615	593	530	11%
Total OECD	760	790	762	848	742	725	735	689	912	897	859	4%
Naphtha												
North America	67	99	110	124	89	151	76	66	98	71	108	-52%
Europe	305	282	269	279	231	287	279	322	264	320	252	21%
Pacific	770	769	746	772	759	693	760	696	752	701	829	-18%
Total OECD	1142	1150	1125	1175	1080	1132	1115	1084	1114	1092	1190	-9%
Gasoline[3]												
North America	669	794	1013	849	1020	1046	1135	1029	956	1074	697	35%
Europe	150	137	161	172	145	207	119	63	165	212	171	19%
Pacific	70	105	102	95	130	93	90	120	86	82	95	-16%
Total OECD	888	1035	1276	1115	1294	1346	1344	1213	1207	1367	963	30%
Jet & Kerosene												
North America	97	101	129	67	43	139	266	306	191	119	48	60%
Europe	271	293	361	273	361	438	371	379	383	352	246	30%
Pacific	102	77	66	97	72	48	49	40	55	138	99	28%
Total OECD	470	471	557	437	476	625	685	725	629	609	394	35%
Gasoil/Diesel												
North America	126	123	142	110	92	99	267	270	225	350	133	62%
Europe	652	751	826	931	718	807	850	890	898	1132	829	27%
Pacific	73	74	79	60	94	79	83	101	96	73	68	7%
Total OECD	850	947	1047	1101	903	984	1200	1262	1219	1555	1029	34%
Heavy Fuel Oil												
North America	326	453	525	489	433	566	610	686	492	607	473	22%
Europe	398	405	495	415	550	528	488	444	567	460	343	25%
Pacific	88	76	85	83	82	90	82	100	87	123	73	41%
Total OECD	812	935	1105	988	1065	1185	1180	1229	1146	1189	889	25%
Other Products												
North America	680	872	1005	735	1064	1166	1049	939	836	1121	753	33%
Europe	690	676	777	718	809	798	779	737	773	878	610	30%
Pacific	235	256	247	254	248	225	263	251	308	285	282	1%
Total OECD	1605	1805	2029	1708	2121	2189	2091	1926	1916	2284	1645	28%
Total Products												
North America	1991	2466	2944	2399	2745	3185	3433	3306	2846	3347	2230	33%
Europe	2657	2767	3106	3082	2962	3272	3106	3030	3299	3652	2762	24%
Pacific	1879	1898	1852	1894	1975	1728	1812	1793	1999	1995	1977	1%
Total OECD	6527	7132	7901	7374	7682	8185	8350	8129	8145	8994	6969	23%
Total Oil												
North America	10061	10905	11328	10976	11359	11436	11534	11781	10697	10887	10654	2%
Europe	11753	12245	12927	12777	12469	13354	13099	13071	13094	13186	12603	4%
Pacific	8590	8558	8653	9059	8409	8370	8779	8526	9119	9245	9286	0%
Total OECD	30403	31707	32908	32812	32237	33160	33412	33379	32910	33317	32543	2%

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

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OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

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INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

12 May 2006

HIGHLIGHTS

- Against a backdrop of low spare production capacity, NYMEX crude futures breached $75/bbl in April. The move was led by sharply higher gasoline prices, ongoing Nigerian supply disruptions and stronger political rhetoric from Iran. Speculative length and open interest on the NYMEX WTI contract rose dramatically. Prices briefly weakened to $70/bbl in early May in reaction to an unanticipated build in US gasoline stocks.

- Despite underlying economic strength, global oil demand growth for 2006 has been revised down from 1.47 mb/d to 1.25 mb/d with mild first quarter temperatures and sustained high oil prices. US demand is less robust than was implied by preliminary weekly data and FSU apparent demand is adjusted downwards due to unexpectedly strong exports.

- World oil supply in April rose by 485 kb/d to 85.1 mb/d. Increases from OPEC, the FSU, Africa and North America were partly offset by seasonal North Sea outages. Non-OPEC supply growth for 2006 holds at 1.2 mb/d. OPEC non-crude supply in 2006 grows 260 kb/d, despite reduced estimates for Venezuelan Orimulsion supply.

- April OPEC crude supply rose by 170 kb/d to 30.0 mb/d. This followed higher output in Iraq, despite ongoing pipeline problems, and to a lesser extent Nigeria, Venezuela and Libya. The 'call on OPEC crude and stock change' is revised down by 0.2 mb/d to 29.2 mb/d for 2006 on weaker US and FSU demand, but builds to 29.7 mb/d by the fourth quarter.

- OECD total industry oil stocks fell by 17 mb in March to 2620 mb, 74 mb above a year ago. Draws in product inventories outpaced a build in crude. For the first quarter, stocks built by 0.3 mb/d, the first such rise in nine years. Days of forward demand cover at end-March held flat at 54 days.

- Strong gasoline prices in April lifted refining margins to their highest level since the hurricane-related peaks in the autumn of 2005. OECD refinery runs fell to 38.3 mb/d in March due to heavy Atlantic Basin maintenance and offline US Gulf Coast capacity.

Next Issue: 13 June 2006

CONTENTS

HIGHLIGHTS....1

CONTENTS....2

THE FIRST PIECE OF THE PUZZLE....3

DEMAND....4
- Summary....4
- OECD....6
  - North America....6
  - Europe....8
  - Pacific....9
- Non-OECD....10
  - China....10
  - Other Non-OECD....11

SUPPLY....13
- Summary....13
- OPEC....14
- Venezuelan Orimulsion Supply Data Revision....17
- OECD....17
  - North America....17
  - North Sea....19
- Former Soviet Union (FSU)....19
- Update on New FSU Export Outlets....21
- Other Non-OPEC....21
  - Revisions to Other Non-OPEC Estimates....22

OECD STOCKS....23
- Summary....23
- OECD Industry Stock Changes in March 2006....24
  - OECD North America....24
  - OECD Europe....24
  - OECD Pacific....25
- OECD Inventory Position at End-March and Revisions to Preliminary Data....25
- Recent Developments in ARA Independent Storage....26
- Recent Developments in Singapore Stocks....26

PRICES....27
- Summary....27
- Oil Futures Prices....28
  - Crude Futures....28
  - Product Futures....29
- Spot Crude Oil Prices....30
  - Delivered Crude Prices in February....32
  - Spot Product Prices....32
  - End-User Product Prices in April....33
- Freight....35

REFINERY ACTIVITY....36
- Summary....36
- Refining Margins....36
  - OECD North America....36
  - OECD Europe....37
  - Asia....37
- OECD Refinery Yields....38
- Refinery Throughput....40
  - OECD North America....41
  - OECD Europe....42
  - OECD Pacific....42
  - Non-OECD Throughputs....42

TABLES....44

OIL MARKET REPORT CONTACTS

THE FIRST PIECE OF THE PUZZLE

Oil prices are determined by the marginal barrel, the nature of which can vary considerably over time. On the supply side, the marginal barrel could come from OPEC spare capacity, reflect the cost of developing new frontier oil facilities or the cost of technology to squeeze the extra barrel from depleted fields. On the demand side, it could come from a decision to use the small second car, to take the train or myriad other daily decisions. Stocks act on both sides of the equation. Further, the paper barrel also has to be taken into consideration – bought or sold by risk managers or speculators.

Marginal crude supply is not the same as marginal demand, but they meet through transformation in the refinery sector, opening up a complex relationship between refinery economics, product demand, crude grades, sulphur content and regulation. Matching the marginal barrel of supply to demand is not always easy to sustain on a continuous basis. Here we look at refinery capacity as one piece of the puzzle that shapes today's high oil prices.

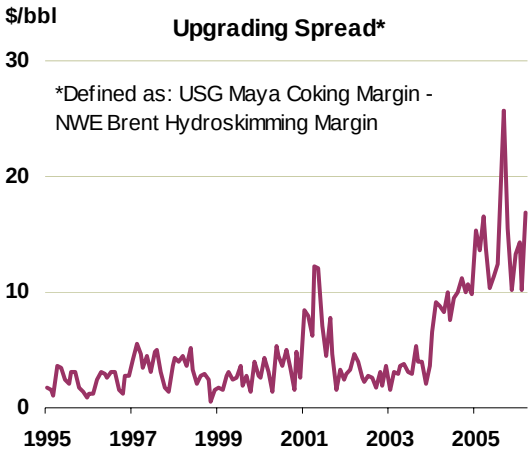
The quick reaction of the world refining system to expand utilisation after Hurricanes Katrina and Rita showed there was no shortage of refinery crude distillation capacity. But, the current high gasoline and diesel prices and depressed fuel oil prices reflect a mismatch between refining capacity and product demand. As less sophisticated capacity comes into use, more surplus fuel oil is produced. For refiners to run profitably, gasoline and diesel prices have to rise to offset the discounts needed to clear the fuel oil surplus and to encourage marginal refiners to run the incremental crude.

These less sophisticated refineries need to run more crude than their full conversion counterparts to meet growing demand for transportation fuels. To emphasise this point: if all of OECD Europe's refineries were upgraded to full conversion facilities, the yield of light petroleum products would be 2 mb/d higher.

Quantifying the impact of insufficient upgrading capacity on oil prices is difficult. There is a circular relationship between crude and product prices. Higher gasoline and diesel prices lift refinery margins, increase crude demand and in turn raise crude prices. Refining margins then fall, requiring a further upward shift of transportation fuel prices to reinvigorate the cycle.

The limitations in upgrading capacity then become visible in the difference between simple hydroskimming and complex coking refinery margins - known as the upgrading spread. The difference in the value of product yields between the refineries accounts for some of this spread, another part is accounted for by crude price differentials. A hydroskimmer gets more value out of a light-sweet crude and will therefore bid up its price, whereas a full conversion refinery can take discounted heavy sour crudes. Therefore, if we look at an upgrading spread comprising a heavy-sour crude (Maya) run through a coking refinery and a light-sweet crude (Brent) in the hydroskimming refinery, this tends to become wider the greater the constraint in upgrading capacity.

The upgrading spread, which has ranged between $10/bbl and $20/bbl for the past year (up from under $3/bbl between 1995 and 2000), is not the perfect measure of the impact a lack of upgrading capacity has on crude prices - but it is a reasonable indicator of the current state of affairs.



All of this does not mean refiners bear responsibility for high oil prices. Many of their problems are deep rooted in framework constraints that are the responsibility of governments, particularly related to NIMBY and environmental issues. For example, the large investments to meet even tighter sulphur specifications, could arguably have crowded out investments in upgrading capacity. Tighter specifications yield environmental and health benefits, but they are not without cost.

While the refining industry was largely a forgotten piece of the puzzle for most of the past 15 years, underinvestment in upgrading capacity has underscored its importance.

DEMAND

Summary

- **Global oil product demand growth** in 2006 is revised down from 1.47 mb/d to 1.25 mb/d. The bulk of the adjustment is attributed to two factors: (1) A weaker US demand picture than previously implied by preliminary weekly data, and (2) unexpectedly robust FSU exports, which in turn reduces apparent demand. Although the global economy posted strong growth in the first quarter of 2006, mild temperatures and high prices weighed on demand in most key consuming areas. Global oil demand grew by only 370 kb/d year-on-year in the first quarter, but it is expected to rebound in the second half of the year, in part reflecting a weak hurricane-impacted 2005 baseline.

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)	82.6	81.2	82.1	84.3	82.5	84.5	82.4	83.3	84.2	83.6	84.9	83.3	84.7	86.5	84.8
Annual Change (%)	3.2	5.5	4.0	3.4	4.0	2.3	1.5	1.4	-0.1	1.3	0.4	1.1	1.6	2.8	1.5
Annual Change (mb/d)	2.5	4.2	3.2	2.8	3.2	1.9	1.2	1.2	-0.1	1.0	0.4	0.9	1.4	2.3	1.2
Changes from last month's report (mb/d)	-	-	-	-	-	0.0	-	0.0	0.0	0.0	-0.4	-0.4	-0.1	0.0	-0.2

- **Global economic growth** is projected to remain strong throughout 2006, with the International Monetary Fund (IMF) recently raising its forecast for global economic growth by 0.6%, to 4.9%. A robust economy will continue to lend support to oil demand in the face of high prices, but there is reason for caution. The IMF contends that currently the downside risks to economic growth outweigh the potential upside as global macroeconomic imbalances are on the rise.

- **OECD demand growth** contracted by 0.7% in the first quarter of 2006, in part because (with the exception of Europe) temperatures were extraordinarily mild. High prices also weighed on demand, especially as natural gas prices declined, thereby limiting interfuel substitution of oil products for natural gas.

Global Oil Demand by Region
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2005	2004	2005	2006	2004	2005	2006
North America	25.42	0.81	0.09	0.22	3.3	0.3	0.9
Europe	16.33	0.24	-0.03	0.03	1.5	-0.2	0.2
OECD Pacific	8.63	-0.16	0.10	0.04	-1.9	1.2	0.4
China	6.59	0.86	0.15	0.35	15.4	2.4	5.3
Other Asia	8.78	0.56	0.16	0.06	7.0	1.8	0.7
Subtotal Asia	24.00	1.25	0.41	0.44	5.6	1.7	1.8
FSU	3.80	0.17	0.04	0.04	4.7	1.2	1.0
Middle East	6.13	0.41	0.31	0.32	7.5	5.4	5.3
Africa	2.91	0.09	0.09	0.07	3.4	3.2	2.5
Latin America	5.00	0.21	0.13	0.11	4.4	2.6	2.3
World	83.59	3.18	1.05	1.25	4.0	1.3	1.5

- **US50 demand** (excluding US territories) is revised down substantially from previous estimates based on preliminary weekly data. While weekly data suggested that gasoline demand was staging a post-hurricane recovery in February, the release of monthly data showed a decline, contributing to a 140 kb/d downward adjustment to total product demand in the first quarter of 2006. Although the US economy grew by some 4.8% in the first quarter, which was the strongest growth in 2 ½ years, oil demand declined by some 1.4% year-on-year, due to a combination of elevated product prices, mild weather and switching to natural gas.

Preliminary Inland Deliveries - March 2006[1]

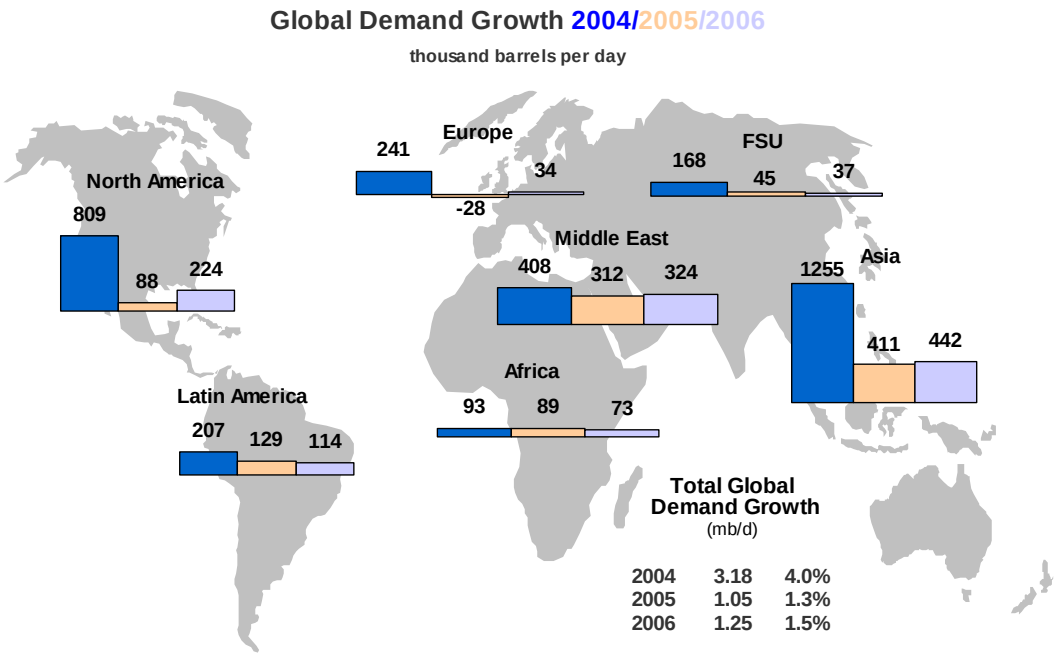
	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
USA[3]	9.09	1.0	1.61	-0.1	2.98	-2.4	1.19	-6.0	0.86	10.2	4.9	-2.7	20.61	-0.6
Canada	0.68	1.8	0.10	-6.3	0.47	4.0	0.11	-9.2	0.13	-10.7	0.2	-11.2	1.72	-1.8
Mexico	0.72	6.4	0.06	1.6	0.36	14.5	0.00	na	0.30	-10.6	0.4	-0.3	1.82	3.0
Japan	1.06	-2.3	0.77	-9.1	0.69	-3.2	0.53	-11.7	0.47	-6.9	1.7	-4.3	5.18	-5.6
Korea	0.16	-1.3	0.06	-26.6	0.42	0.7	0.11	-30.1	0.27	-24.2	1.1	-4.8	2.11	-8.9
France	0.23	-7.5	0.13	3.1	0.67	5.0	0.38	-0.5	0.09	-7.0	0.5	-7.8	1.98	-1.5
Germany	0.50	-9.1	0.17	5.2	0.57	4.0	0.55	24.3	0.11	-3.0	0.4	-18.3	2.28	-0.1
Italy	0.30	-7.0	0.08	3.6	0.55	7.2	0.12	-6.6	0.26	49.5	0.4	-2.1	1.71	5.3
Total	**12.74**	**0.2**	**2.99**	**-2.9**	**6.70**	**0.9**	**2.99**	**-3.4**	**2.48**	**-0.7**	**9.5**	**-4.3**	**37.42**	**-1.5**

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.
Note: Monthly US demand data are subject to revision, as discussed in the Reports dated 13 July and 11 August 2005.

- **Chinese apparent demand** (refinery production plus net product imports) grew by some 5.7% in March, following rather tepid growth (0.9%) in the first two months of the year. The March rise may be attributed in part to an increase in administered retail prices and the suspension of tax rebates on gasoline and naphtha exports, thereby encouraging domestic supply. However, more recently, the rise in the international market price of crude and products has not been matched by an increase in domestic prices, which again limits the incentive to supply the domestic market. Shortages of transport fuels have been reported in a number of areas, which will temper April apparent demand growth. On the whole, Chinese apparent demand is projected to grow by 5.3% in 2006, while its economy is expected to expand by 9-10%.

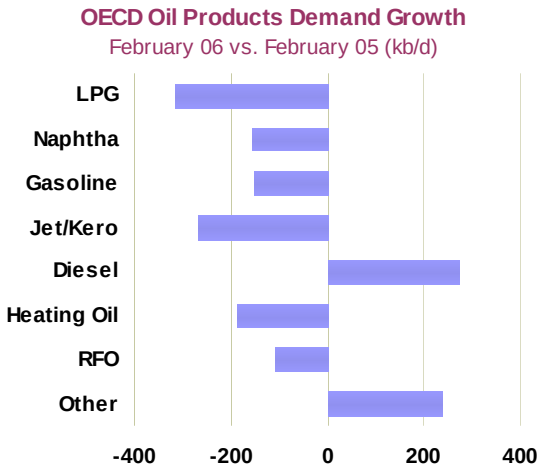
- **FSU apparent demand** (crude production less net crude and product exports) is revised down by some 100 kb/d for 2006 as net exports have exceeded expectations. It appears that companies have sought to maximise exports prior to increases in export duties in May and June.

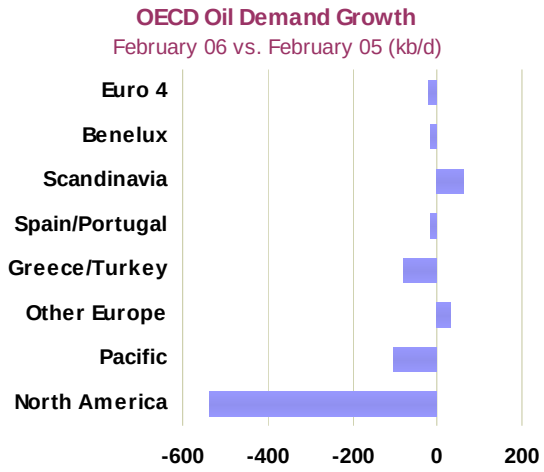
- **Non-OECD countries that regulate oil product retail prices** have once again had to rethink their pricing strategies in light of rising international market prices of crude and products. Some countries, such as Vietnam, have chosen to increase administered retail prices. Others, such as Malaysia and Chile, are trying to limit price increases. In the latter group of countries, the demand response to high international prices may be muted in the near term because the price increase is not directly passed on to consumers.



- **Middle East demand** is expected to post strong growth due to a booming regional economy and low administered retail prices. With a growing budget surplus, Saudi Arabia is reducing its already low gasoline and diesel prices, which may further spur robust demand growth. In contrast, Iran has raised the possibility of gasoline rationing as the direct cost of subsidies is projected to exceed $5 billion in 2006, while only about $2.5 billion is currently budgeted.

OECD





Total OECD Demand by Product
(million barrels per day)

	2004	2005	1Q05	2Q05	3Q05	4Q05	Dec 05	Jan 06	Feb 06	Latest month vs. Jan 06	Latest month vs. Feb 05
LPG & Ethane	4.87	4.70	5.41	4.33	4.35	4.73	5.31	4.96	5.27	0.31	-0.32
Naphtha	3.22	3.23	3.39	3.15	3.25	3.11	3.20	3.25	3.28	0.03	-0.15
Motor Gasoline	14.88	14.87	14.46	15.08	15.19	14.73	15.01	13.99	14.29	0.30	-0.15
Jet & Kerosene	4.11	4.24	4.63	3.91	4.01	4.41	5.03	4.61	4.53	-0.08	-0.27
Gas/Diesel Oil	12.85	13.03	13.38	12.65	12.73	13.37	13.69	13.17	13.85	0.68	0.09
Residual Fuel Oil	4.59	4.57	4.88	4.36	4.44	4.62	4.87	4.80	4.85	0.06	-0.11
Other Products	4.97	5.00	4.43	5.24	5.34	4.99	4.70	4.72	4.57	-0.15	0.24
Total Products	**49.49**	**49.63**	**50.58**	**48.71**	**49.30**	**49.96**	**51.82**	**49.50**	**50.65**	**1.15**	**-0.67**

North America

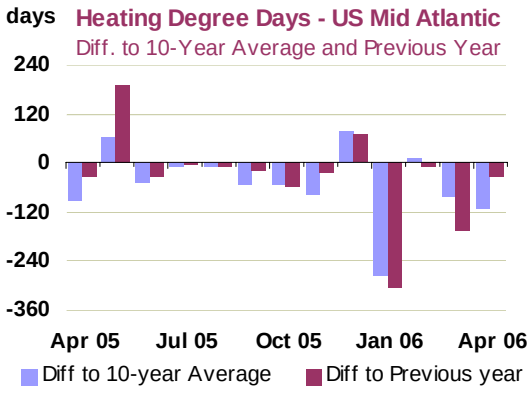
US50 (excluding US territories) demand is revised down substantially as the February monthly data show a very different picture than estimates based on preliminary weekly data. While the weekly data had implied that gasoline demand growth was rebounding from post-hurricane weakness, more complete monthly data show that demand declined by some 0.9% year-on-year in February. This entailed a 310 kb/d downward adjustment to February gasoline demand. Residual fuel oil demand was also revised down by some 130 kb/d in February, as the impact of mild temperatures and declining natural gas prices was larger than estimated based on weekly data.

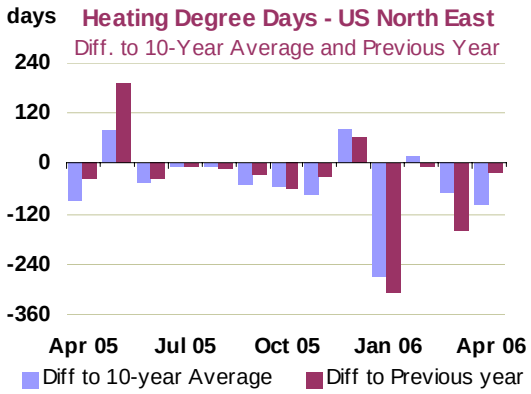
OECD North America Demand by Product
(million barrels per day)

	2004	2005	1Q05	2Q05	3Q05	4Q05	Dec 05	Jan 06	Feb 06	Latest month vs. Jan 06	Latest month vs. Feb 05
LPG & Ethane	2.95	2.80	3.27	2.54	2.58	2.81	3.20	2.92	3.12	0.20	-0.21
Naphtha	0.50	0.44	0.50	0.47	0.49	0.29	0.35	0.35	0.35	0.00	-0.18
Motor Gasoline	10.50	10.61	10.35	10.74	10.77	10.58	10.74	10.12	10.28	0.16	-0.04
Jet & Kerosene	1.91	1.93	1.94	1.89	1.93	1.97	2.02	1.82	1.88	0.06	-0.14
Gas/Diesel Oil	4.98	5.07	5.22	5.00	4.91	5.13	5.29	5.13	5.34	0.21	0.21
Residual Fuel Oil	1.51	1.58	1.60	1.47	1.62	1.63	1.66	1.51	1.38	-0.13	-0.21
Other Products	2.97	3.00	2.65	3.18	3.17	3.01	2.80	2.88	2.67	-0.21	0.03
Total Products	**25.34**	**25.42**	**25.53**	**25.30**	**25.47**	**25.40**	**26.06**	**24.73**	**25.01**	**0.29**	**-0.53**

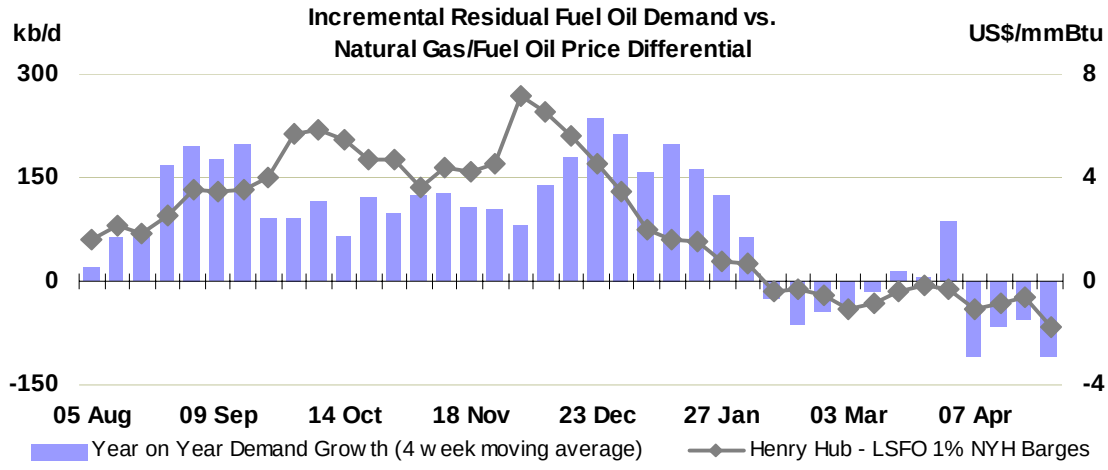
The US Energy Information Administration (EIA) has cautioned that there may be further difficulties in weekly data collection and estimation as the industry makes the transition to MTBE-free gasoline. The EIA notes that during major fuel specification changes there are sometimes errors in reporting, but it is taking measures to improve the reporting of ethanol blending. Because not all ethanol blending is accounted for, adjustments are incorporated into weekly demand estimates.

Some market observers have raised the possibility that the February US demand data could be revised upwards with the release of more complete annual data next summer. In this context, it should be noted that this Report incorporates an estimate of likely revisions to monthly data, which will be finalised when more comprehensive US annual data becomes available.





Viewing the US situation more generally, the economy grew by 4.8% in the first quarter of 2006, its strongest growth in 2 ½ years, but this was not reflected in oil product demand growth. In fact, year-on-year demand growth was weaker in the first quarter (-1.4%) than in the hurricane-impacted fourth quarter of 2005 (-1.1%), when the economy grew by only 1.7%. A substantial portion of the first quarter decline may be attributed to extraordinarily mild temperatures, especially in January. In addition, while high natural gas prices had helped support demand for some oil products in the post-hurricane period, this is no longer the case. The price of fuel oil recently exceeded natural gas on a $/mmBtu basis, giving users the incentive to return to natural gas.



The evidence that high prices are having an impact on demand at the margin continues to mount. For example, while the US economy is booming, the US Truck Tonnage Index declined in both February and March. Airlines also continue to optimise their operations, taking into account rising fuel costs. US domestic departures were down 8% in February versus year-ago levels. At the same time, passenger miles remained at record highs, increasing by 0.5% year-on-year in February—a combination that obviously implies very high load factors. In fact, the February domestic load factor was reported at a monthly record of 76.8%.

There have been reports of isolated gasoline shortages as the industry moves to replace MTBE with ethanol in reformulated gasoline. The problems were said to be logistical rather than supply related because ethanol has to be blended at the end of the supply chain to avoid water contamination. The need for additional trucks and drivers to transport ethanol separately appears to have strained some regional transport networks. At this point it seems that the difficulties will be temporary. Meanwhile, there have been requests for fuel waivers and other calls for action, including tax relief, as the average retail price of gasoline is over 70 cents/gallon above year ago levels.

Europe

European oil product demand is revised up by some 130 kb/d in March, as preliminary data suggest that low temperatures had a larger than anticipated impact on consumption. Inland deliveries of heating oil grew by some 24.3% year-on-year in Germany. By 1 April, German consumer inventories had dropped to a reported 45% of capacity, down from 49% the previous month and 46% at the same time last year. Faced with historically low inventories, it is possible that German consumers will choose to rebuild stores in coming months, which would boost deliveries. However, based on recent patterns of behaviour it seems more likely that German consumers will maintain low inventories in the face of high prices. In recent winters, consumers have adopted more of a 'just-in-time' approach to heating oil inventories.

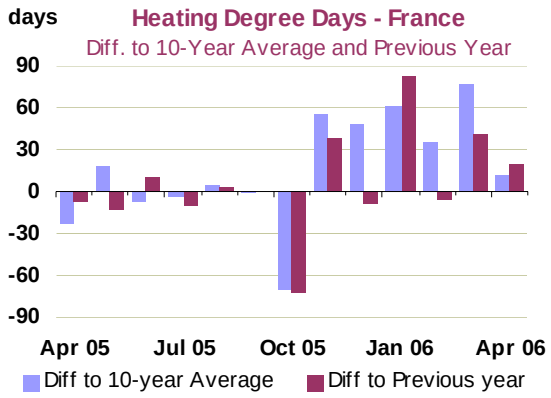
OECD Europe Demand by Product
(million barrels per day)

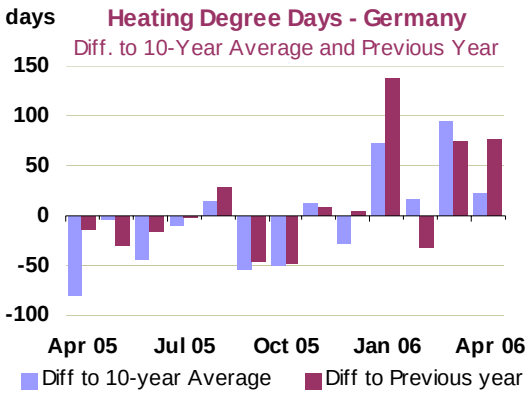
	2004	2005	1Q05	2Q05	3Q05	4Q05	Dec 05	Jan 06	Feb 06	Latest month vs. Jan 06	Latest month vs. Feb 05
LPG & Ethane	1.03	1.00	1.13	0.91	0.93	1.03	1.14	1.08	1.17	0.09	0.00
Naphtha	1.15	1.17	1.20	1.14	1.14	1.21	1.17	1.15	1.18	0.03	-0.06
Motor Gasoline	2.78	2.65	2.52	2.75	2.75	2.55	2.56	2.37	2.45	0.08	-0.07
Jet & Kerosene	1.18	1.25	1.15	1.24	1.36	1.25	1.28	1.18	1.19	0.01	0.00
Gas/Diesel Oil	5.98	6.09	6.17	5.80	6.06	6.32	6.31	6.23	6.58	0.35	-0.03
Residual Fuel Oil	2.02	1.95	2.12	1.90	1.84	1.93	2.06	2.10	2.27	0.17	0.11
Other Products	1.48	1.47	1.26	1.56	1.63	1.45	1.30	1.24	1.24	-0.01	0.02
Total Products	**15.62**	**15.58**	**15.56**	**15.31**	**15.71**	**15.73**	**15.81**	**15.35**	**16.07**	**0.72**	**-0.03**

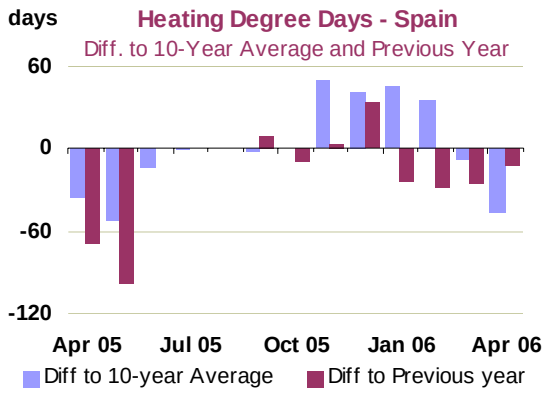
Italy's demand for residual fuel oil averaged approximately 530 kb/d in February and March, the highest level since 1998. The temporary spike in demand may be attributed to a combination of cold weather, Russian natural gas supply disruptions leading to fuel switching and growth in domestic power generation related to reduced net power imports. In contrast, French demand for fuel oil declined by some 13% in March 2006 versus an unusually strong March 2005 baseline.

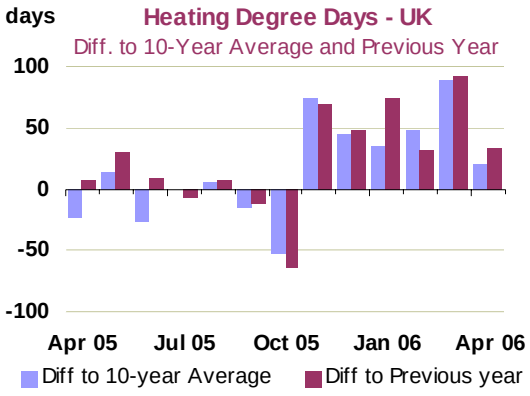
Due in large part to uncommonly cold weather, Europe is in the unusual position of posting the strongest year-on-year demand growth (1.4%) in the OECD in the first quarter. However, it must be cautioned that, aside from diesel and jet fuel, the underlying demand trend remains weak. LPG/ethane, naphtha, gasoline and heating oil are all expected to post year-on-year declines in 2006. Overall, European oil product demand is projected to grow by only 0.1% in 2006.

There have been calls throughout Europe for government response to elevated product prices. For example, France has discussed returning "windfall government receipts" to consumers, although the mechanism for doing so is unclear. Interestingly, Germany recently moved in the opposite direction of some countries that have provided tax incentives to promote alternative fuels, by imposing a new 0.10 €/litre tax on biodiesel beginning in August. This will help avoid large tax losses if consumers switch to biodiesel, but it will also discourage fuel switching. German consumption of biodiesel had almost doubled in 2005 versus 2004, to about 40 kb/d, but some maintain that the new tax could slow future growth. In a bid to encourage the biodiesel industry, Germany is mandating blending with conventional diesel by 2007, but at this point it appears that the mandated blended volumes may be less than current consumption.









Pacific

Preliminary data show that Japanese and Korean oil product deliveries were down sharply in March versus year ago levels (-5.6% and -8.9% respectively). Temperatures were somewhat mild in key consuming areas, but high prices are also likely eroding demand growth. Both countries posted solid economic growth in the first quarter of 2006.

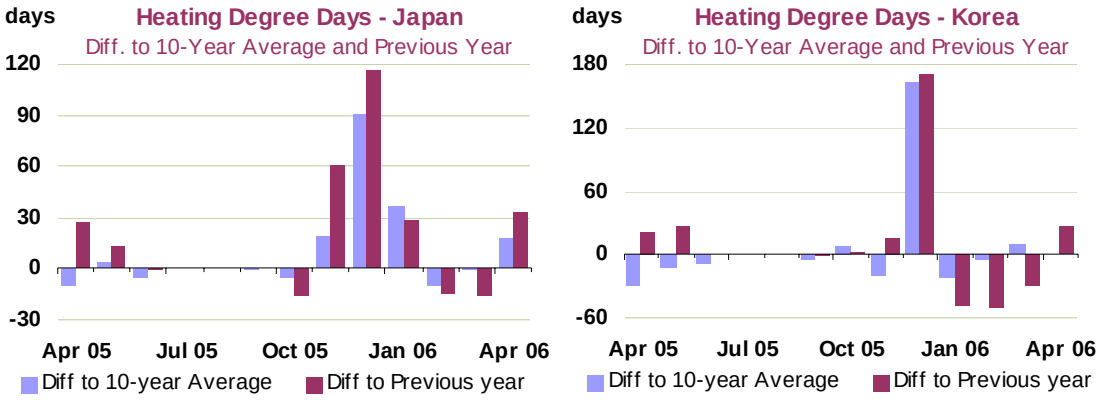
OECD Pacific Demand by Product
(million barrels per day)

	2004	2005	1Q05	2Q05	3Q05	4Q05	Dec 05	Jan 06	Feb 06	Latest month vs. Jan 06	Latest month vs. Feb 05
LPG & Ethane	0.88	0.90	1.00	0.87	0.83	0.90	0.97	0.96	0.97	0.01	-0.11
Naphtha	1.57	1.62	1.69	1.54	1.62	1.61	1.68	1.74	1.75	0.01	0.09
Motor Gasoline	1.60	1.61	1.59	1.59	1.66	1.61	1.72	1.51	1.57	0.06	-0.04
Jet & Kerosene	1.02	1.05	1.54	0.77	0.72	1.20	1.73	1.61	1.46	-0.15	-0.14
Gas/Diesel Oil	1.89	1.88	1.99	1.85	1.76	1.92	2.09	1.81	1.94	0.12	-0.09
Residual Fuel Oil	1.05	1.05	1.17	0.98	0.98	1.06	1.15	1.19	1.21	0.02	-0.01
Other Products	0.52	0.52	0.52	0.50	0.54	0.53	0.60	0.60	0.67	0.07	0.19
Total Products	**8.53**	**8.63**	**9.49**	**8.10**	**8.12**	**8.83**	**9.95**	**9.42**	**9.57**	**0.14**	**-0.10**

Demand was weak across all products except 'other products' in Japan, where inland deliveries increased by some 31.1% year-on-year in March. This rise is largely attributed to an increase in direct burning of crude oil in power generation. As discussed in the 14 March 2006 Report, Japanese utilities have shifted to oil in thermal power generation as Indonesia has been unable to supply some contracted liquefied natural gas (LNG) volumes. There have been reports that the use of oil in power generation is tapering off this spring as electricity use enters a seasonal lull, but stronger demand could re-emerge later this year.

Maintenance-related turnarounds in the petrochemical sector were reported to be unusually high in the region, thereby reducing the demand for naphtha. Japanese ethylene production reportedly fell 11.9% in March versus year ago levels. Korea also had two unscheduled naphtha cracker shutdowns, which

contributed to a 4.5% year-on-year decline in naphtha deliveries in March. Note, however, that Korea's March 2005 naphtha demand was unusually strong, so the March 2006 decline must be viewed in the context of a high baseline. On the whole, industrial demand for oil products, which accounts for over half of Korea's total demand, declined by 4.8% in March.



In spite of a more buoyant Japanese economy, auto sales trends suggest that Japanese gasoline demand will remain stagnant. As has been the pattern for some time, auto sales were weak in April, declining by 3.2% year-on-year, and growth in sales of under 660cc mini-vehicles (5.2%) continued to outpace larger vehicle sales (-7.8%).

Non-OECD

China

After rather tepid growth in January (0.3%) and February (1.5%), Chinese apparent demand (refinery production plus net product imports) increased by a preliminary 5.7% year-on-year in March. While fuel oil demand continued to decline (-7.3%) due to receding power sector use, provisional indications are that apparent demand for gasoline grew by 15.5% year-on-year in March. This is consistent with a reported 54% increase in car sales in the first quarter, to 1.25 million vehicles. The jump in gasoline demand may also be attributed to an increase in administered retail prices and the suspension of a tax rebate on gasoline exports, which are reported to have altered normal patterns of trade and product deliveries. March 2006 gasoline exports were over 100 kb/d below year-ago levels.

China Crude & Product Trade
(thousand barrels per day)

	2004	2005	2Q2005	3Q2005	4Q2005	1Q2006	Jan 06	Feb 06	Mar 06	Latest month vs. Feb 06	Latest month vs. Mar 05
Net Imports/(Exports) of:											
Crude Oil	2346	2387	2541	2294	2407	2872	3003	2921	2697	-224	157
Products & Feedstocks	661	480	375	445	599	510	468	516	547	31	219
Gasoil/Diesel	43	-19	-27	-40	-3	-10	4	-2	-30	-28	-3
Gasoline	-125	-130	-161	-155	-55	-107	-94	-125	-104	21	106
Heavy Fuel Oil	506	418	395	397	402	406	395	410	414	5	-35
LPG	201	194	179	216	182	145	121	170	146	-25	-31
Naphtha	-33	-35	-67	-25	1	-15	-26	-3	-15	-12	56
Jet & Kerosene	16	11	5	2	30	40	29	-11	98	109	100
Other	52	41	51	49	42	51	40	77	39	-38	25
Total	3008	2867	2916	2739	3006	3382	3471	3437	3244	-193	376

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

With the release of more detailed product-level data, China's February 2006 apparent demand is revised down by 170 kb/d. Among the major changes, gasoline and diesel demand were reduced by some 100 kb/d each. Naphtha demand is adjusted upwards by 80 kb/d as new petrochemical production continues to ramp up. Overall, apparent demand grew by some 2.5% year-on-year in the first quarter. The difference in growth across products is striking, as naphtha demand grew (16.6%), but fuel oil (-13.7%) and LPG demand (-12.0%) declined in the face of high international prices, which encouraged moves to alternative fuels where possible.

In April shortages of transport fuels were reported in many areas, which will temper apparent demand growth. As witnessed in August 2005, the recent rise in the international market price of crude and

products has not been matched by an increase in administered retail prices, thereby limiting the incentive to supply products to the domestic market at a loss.

Sinopec, China's largest refinery operator reported a loss of nearly $1 billion on its refining operations for the first quarter of 2006. China's state-run refiners continue to adjust their behaviour to minimise losses while at the same time fulfilling their obligation to fuel a rapidly growing economy. Most recently, refiners have stepped up imports of jet fuel (where the import tariff has been reduced from 9% to 5% beginning 1 January), allowing the maximisation of domestic production of diesel.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2004	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
LPG & Ethane	633	631	619	-2	-12	-0.3	-1.9
Naphtha	684	750	850	66	100	9.7	13.3
Motor Gasoline	1069	1092	1163	23	71	2.1	6.5
Jet & Kerosene	239	246	263	6	18	2.6	7.1
Gas/Diesel Oil	2150	2264	2410	114	146	5.3	6.5
Residual Fuel Oil	829	748	715	-82	-33	-9.8	-4.4
Other Products	828	857	915	28	58	3.4	6.8
Total Products	**6433**	**6587**	**6935**	**154**	**348**	**2.4**	**5.3**

In the meantime, speculation still abounds as to when/if the Chinese government will move towards a pricing system that is more directly linked to international prices. The National Development and Reform Commission (NDRC) recently released a report pushing for price reform, but many government officials appear wary of the unrest that could arise if prices are increased. The Ministry of Finance recently announced plans to offer a one-off grant of over $1.5 billion to grain growers to help mitigate the rising cost of raw materials, including fuel and fertiliser.

Among other developments, while China is reported to have completed the construction of a substantial portion of its planned strategic oil storage, its plans to fill it remain opaque. The paucity of information on both inventories and strategic storage complicates assessments of China's actual, as opposed to apparent, demand (see discussion in the 10 February 2006 Report). In an interesting twist, the NDRC has submitted a report suggesting that China's incremental foreign exchange reserves should be converted into strategic petroleum reserves.

Other Non-OECD

With the recent crude and product price rise, non-OECD countries that subsidise product prices have once again had to rethink their pricing strategies. The response has varied. Among those that have responded, **Vietnam** raised retail prices on 27 April. **Bangladesh** has been asked by the Asian Development Bank to raise state-regulated fuel prices to avoid serious macroeconomic consequences. Although it is uncertain how the government will react, over the past two years Bangladesh has only raised prices enough to cover one-half to two-thirds of the increase in international prices.

Indonesia recently raised prices of high octane gasoline and some oil products used by industry. At the same time, the government maintains that it is not planning to increase the price of subsidised products used by general consumers, including gasoline, kerosene and diesel. Pertamina, Indonesia's state-run oil company, has reportedly suggested that oil product demand will decline by some 5% year-on-year in 2006, following an October 2005 increase to administered retail prices. However, recent trends in oil product trade suggest that the decline could be larger. This Report projects that Indonesia's oil product demand will fall by some 10.4% in 2006, partly due to a reduction in smuggling to nearby countries.

Thailand's overall demand for oil products has stabilised somewhat following a decline in the second half of 2005 corresponding to the removal of price subsidies for diesel and gasoline. The Thai government is actively promoting gasohol, sales of which roughly quadrupled between March 2005 and March 2006 (note that gasohol is included in total demand). Partly as a result, March gasoline sales declined by some 32.3% versus year ago levels.

India is projecting that the annual southwest monsoon rains will be near normal this year, which likely precludes a large year-on-year swing in agriculture related fuel demand. A combination of falling spot LNG prices and rising naphtha prices has rekindled interest in substituting LNG for naphtha in fertiliser production. Shell recently resumed imports of spot LNG cargoes at its Hazira receiving terminal.

Meanwhile, state-run Indian Oil Corporation is losing some $15-20 million a day, in large part because the government has not raised retail prices since September 2005. Some had speculated that the Indian government would act to raise prices following the 8 May elections. Depending on the magnitude of the increase, this action could impact demand, which is expected to grow by 2.0% year-on-year in 2006.

India Crude & Product Trade
(thousand barrels per day)

	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Dec 05	Jan 06	Feb 06*	Latest month vs. Jan 06	Latest month vs. Feb 05
Net Imports/(Exports) of:											
Crude Oil	1945	1927	1969	1894	1965	1882	1908	2124	2384	260	557
(by Public Oil Cos)	1158	1131	1133	1116	1112	1164	1008	1271	1472	201	372
Products & Feedstocks	-176	-123	-82	-92	-116	-201	-286	-320	-495	-175	-420
Gasoil/Diesel	-139	-139	-89	-108	-135	-224	-238	-234	-231	4	-128
Gasoline	-75	-24	-53	-39	-35	29	33	-80	-88	-9	-66
Heavy Fuel Oil	-6	-5	-4	10	7	-34	-52	-39	-52	-13	-44
LPG	86	98	95	74	98	126	102	104	58	-46	-36
Naphtha	-7	-32	-15	-39	-28	-47	-104	-20	-107	-87	-66
Jet & Kerosene	-47	-34	-34	-5	-33	-63	-39	-59	-66	-7	-45
Other	12	14	17	15	10	13	13	8	-9	-17	-34
Total	1769	1804	1887	1801	1849	1681	1622	1804	1889	86	137

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

In contrast to the government responses to higher prices outlined above, which generally serve to reduce global oil demand by sending clearer price signals to consumers, other countries have moved in the opposite direction. For example, the **Chilean** government is seeking to extend fuel subsidies which were set to expire on 30 June. Like some non-OECD countries, the Chilean government has been able to take advantage of high returns on commodities (especially copper) to help mitigate the impact of high oil prices. **Malaysia** has also publicly stated that it will maintain fuel prices at current levels through the end of 2006 even if crude prices remain at elevated levels. Among others, the **Philippines** is reducing its oil import tariff from 3% to 1%.

After slowing to 5.0% year-on-year growth in the fourth quarter of 2005, **Singapore's** marine bunker demand increased by 19.9% in the first quarter of 2006. Bunker fuel accounts for over half of Singapore's total oil product demand and its share is projected to expand as long as the regions economies' continue to boom.

Turning to the Middle East, **Saudi Arabia** is moving to reduce gasoline and diesel prices by some 30% as its budget surplus is expanding rapidly with high oil prices. Gasoline prices would be cut to $0.16/litre, which may further spur already robust demand growth.

Interestingly, **Iran's** oil ministry has raised the possibility of gasoline rationing in the second half of 2006 unless it obtains extra government funds for gasoline imports. Iran currently imports some 170 kb/d of gasoline, for which consumers pay among the lowest retail prices in the world. Due to high international prices, the cost of the gasoline imports is projected to rise to over $5 billion in 2006, while only about $2.5 billion has been budgeted by the government.

FSU apparent demand (crude production less net crude and product exports) is revised down by some 100 kb/d for 2006. A substantial portion of the adjustment may be attributed to an approximate 200 kb/d upward revision to net exports over the March-May 2006 period. Companies seem to be maximising exports prior to a scheduled 6 May increase in product export duties and a likely 1 June increase in crude export duty.

Given that January and February were extraordinarily cold, the FSU's implied demand growth for the first quarter of 2006 appears quite low. However, there have been reports that a substantial portion of the fuel oil used in power generation was drawn from power-station inventories and state strategic reserves. This use would not have appeared in first quarter apparent demand.

SUPPLY

Summary

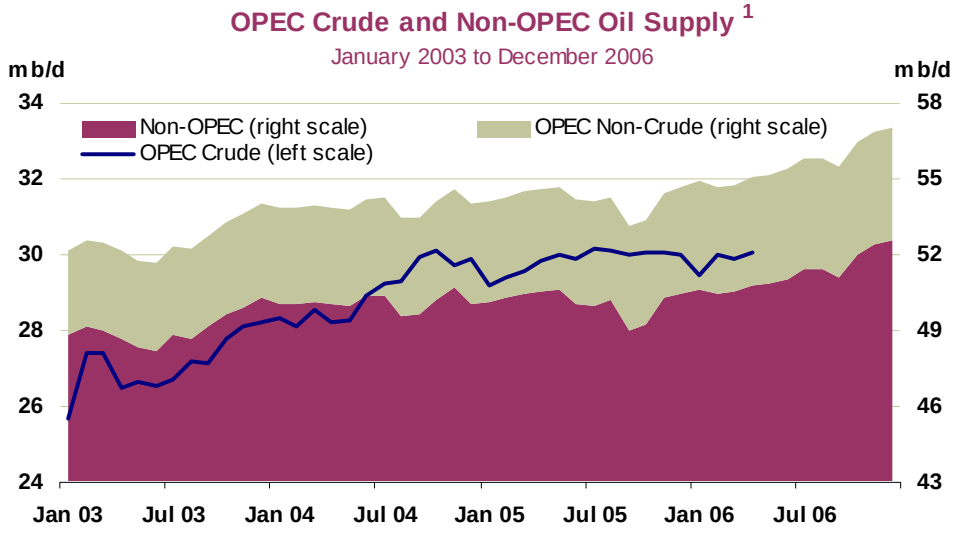
- **World oil supply** in April gained 485 kb/d compared to March, to average 85.1 mb/d. Increases of 100 kb/d or more came from OPEC, the FSU, Africa and North America, and were in part offset by lower North Sea supply as seasonal maintenance commenced. The first quarter supply baseline was revised up by some 55 kb/d compared to last month's Report on evidence of higher North American and Chinese production and higher OPEC supply.

- **Year-on-year growth** in global supply stood at 675 kb/d in April and at 880 kb/d for the first quarter after a sharp deceleration in fourth quarter growth. Non-OPEC supply growth has been slow to recover after a spate of late-2005 outages and stood at 255 kb/d for the first quarter. Growth here is expected to accelerate through 2006. OPEC April supply stood 200 kb/d above year-ago levels.

- **Non-OPEC supply** for 2006 sees a modest 30 kb/d upward revision to 51.3 mb/d. Growth remains close to 1.2 mb/d, but is increasingly back-end loaded. Upward revisions to supply centre on the US, Canada, China and Sudan. These are countered in part by downward adjustments for Norway, Russia, Malaysia, Oman and Chad. OPEC "other liquids" supply is revised down by 85 kb/d in 2006 and 70 kb/d in 2005, as evidence has emerged of lower historical Venezuelan Orimulsion production. Despite this, OPEC non-crude growth in 2006 amounts to 260 kb/d, in addition to non-OPEC supply growth.

- **OPEC crude supply** for March was revised up by 220 kb/d to 29.9 mb/d after indications of stronger performance from both Iran and the UAE, although these were short-lived and both saw lower supply in April. In total, April OPEC supply increased by 170 kb/d to 30.0 mb/d. A 215 kb/d increase from Iraq was augmented by lesser increases from Nigeria, Venezuela, Libya and Qatar. Despite rising compared to March, April supply from Iraq and Nigeria remained constrained by security-related factors which impeded pipeline exports. UAE and Qatar production capacity was revised up modestly but OPEC effective spare capacity remains less than 2 mb/d.

- **The 'call on OPEC crude and stock change'** is revised up by 0.1 mb/d for 2005 to 29.4 mb/d due to lower estimates for Venezuelan Orimulsion supply. Although this component of supply is also lowered for 2006, this year's call is revised down by 0.2 mb/d to 29.2 mb/d due to offsetting reductions in forecast demand for North America and the FSU. The second quarter call is now 28.1 mb/d but rises to 29.7 mb/d by fourth quarter.



All world oil supply figures for April discussed in this Report are IEA estimates. Estimates for OPEC countries, Alaska and Russia are supported by preliminary April 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 April increased by 170 kb/d, from an upward-revised 29.9 mb/d level in March. Modest recovery in production from Iraq and Nigeria allowed total supply to breach 30.0 mb/d in April, approaching the highs seen in third quarter 2005. The March total was revised up by 220 kb/d to reflect higher output from Iran and the UAE. However, these two producers eased supply modestly in April, partly due to rising Asian refinery maintenance. April also saw modest increases from Venezuela, Libya and Qatar. OPEC-10 production (excluding Iraq) averaged 28.0 mb/d, equivalent to the production target in place since July 2005. Venezuela, Indonesia, Iran and Nigeria are currently unable to match target output levels, offsetting higher production by others.

Despite increases in assessed sustainable production capacity for the UAE and Qatar, to 2.7 mb/d and 830 kb/d respectively, effective spare capacity in April remained close to the 1.7 mb/d estimated for March. The inability of Indonesia, Iran, Nigeria and Venezuela to boost production on a sustainable basis in the short term means that we have netted out these countries' notional spare capacity from an OPEC total spare capacity of some 2.8 mb/d. The absence of a larger margin of upstream flexibility is one of the key drivers of current high prices, in conjunction with geopolitical risks, buoyant economic growth and a tightness in available downstream upgrading capacity.

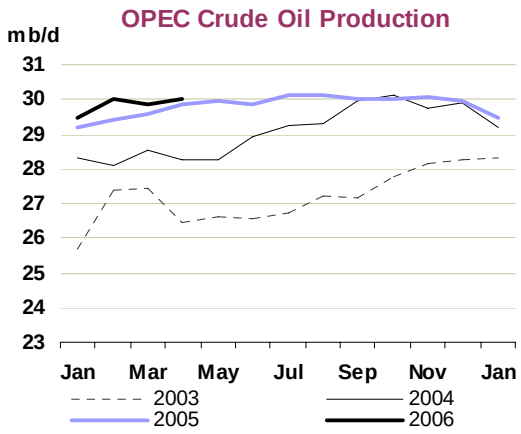
OPEC Crude Production
(million barrels per day)

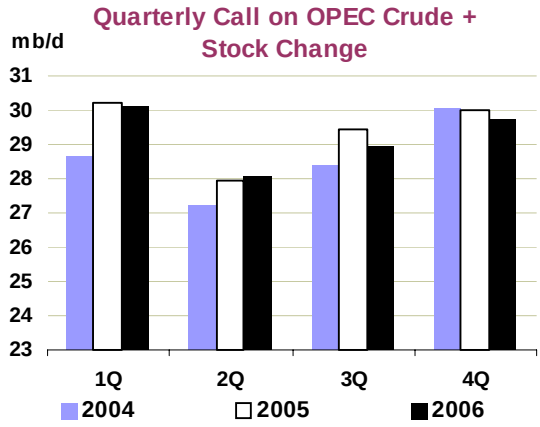
	1 July 2005 Target	April 2006 Production	Sustainable Production Capacity[1]	Spare Capacity vs April 2006 Production	Production vs. Target
Algeria	0.89	1.36	1.37	0.01	0.47
Indonesia	1.45	0.93	0.98	0.05	-0.52
Iran	4.11	3.83	4.00	0.17	-0.28
Kuwait[2]	2.25	2.51	2.60	0.09	0.26
Libya	1.50	1.70	1.70	0.00	0.20
Nigeria	2.31	2.13	2.60	0.47	-0.18
Qatar	0.73	0.83	0.83	0.01	0.10
Saudi Arabia[2]	9.10	9.50	10.80	1.30	0.40
UAE	2.44	2.61	2.70	0.10	0.16
Venezuela[3]	3.22	2.63	2.75	0.12	-0.59
Subtotal	**28.00**	**28.02**	**30.33**	**2.31**	**0.02**
Iraq		2.02	2.50	0.48	
Total		**30.04**	**32.83**	**2.79**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.67)*	

1 Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Includes Orinoco extra-heavy oil assumed at 630 kb/d in April

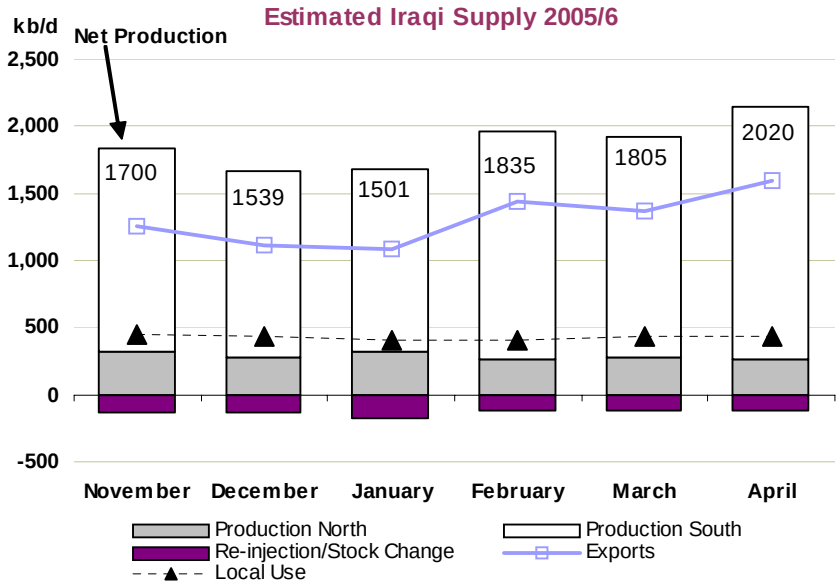
OPEC representatives have acknowledged that the $70/bbl-plus marker crude prices seen in April are a source of concern. As such, most market commentators envisage no change in production policy when OPEC meets in Caracas on 1 June. OPEC Ministers cite a combination of speculative and geopolitical pressures and downstream bottlenecks as underpinning high prices, but this seems an incomplete list without the key influence of slim margins of spare upstream capacity and actual Nigerian outages. OPEC has also expressed concerns that high prices are fostering policies in consuming countries that will curb oil demand in the longer term. The IEA and others on the consuming side have pointed out that, while conservation and alternative energies may have an impact in the longer term, there is only a limited volumetric impact likely to spring from government-sponsored action in the next 5-10 years.

From this Report's perspective, the run up in prices has mirrored a slowing pace of net upstream capacity additions in a number of OPEC producer countries. Limited spare upstream capacity is not new, and sub-2 mb/d levels have been evident since the Venezuelan strike of early-2003. However, heightening supply risks in a number of OPEC and non-OPEC countries and surging economic and oil demand growth have focussed attention on this lack of supply flexibility. It is commonly heard that a shift of speculative capital from equity sector to commodity sector investment and a mismatch in available refining capacity are the key contributors to high prices. However, cause and effect suggest that the impact of these two phenomena themselves may be exacerbated by a lack of timely investment in new, particularly light/sweet, crude capacity.





There are also concerns that ambitious plans to expand upstream capacity may be difficult to realise in full. Capacity addition plans in OPEC countries drive an OPEC Secretariat forecast of net additions of some 1 mb/d per annum through 2010. This Report has previously cited a lower, 700-800 kb/d per annum. This partly reflects concerns, also beginning to be expressed by some OPEC Ministers, that service company and raw material constraints may adversely affect project costs and schedules.



The key driver of higher OPEC April volumes was the rise in net **Iraqi** supply. This increased from 1.8 mb/d in March to 2.0 mb/d. Tanker liftings suggests total exports of 1.59 mb/d, the highest level since September 2005. Favourable weather and increased tugboat availability boosted activity at Basrah. Liftings were again restricted to southern terminals and there have been no tanker liftings from Ceyhan in Turkey since October 2005 due to repeated sabotage on the northbound pipeline from the Kirkuk oilfields. Scheduled Basrah liftings for May are reported to amount to 1.65 mb/d.

There were, however, conflicting indications in April concerning northern exports, with some anecdotal reports suggesting that limited northbound pipeline shipments had been possible again. This appears at odds with earlier Oil Ministry statements that northbound shipments could be stalled for up to a year. Storage tanks at Ceyhan were again reported to hold less than 3 mb and a Turkish government claim for compensation for losses due to the absence of pipeline flows tends to support an absence of recent northbound crude movement.

April saw renewed reports of widespread corruption and the apparent 'disappearance' of over 150 kb/d of crude oil, based on certain estimates of production, exports and local refinery use for the southern area. Smuggling of oil products out of Iraq has long been acknowledged, inflating product import requirements, but the problem may be deeper rooted if substantial crude volumes also are involved. This Report does not rely on what may be, at times, political reports of aggregate production, assessing instead net supply on the basis of observed exports and apparent local crude use.

Nigerian crude supply is estimated up by 55 kb/d in April from March, and averaged 2.1 mb/d. However, there were still no indications from Shell in early May as to likely restart dates for some 450 kb/d of Forcados and EA production shuttered after attacks by Niger Delta militants. A further 100 kb/d of production from third parties normally routed via the Forcados export system also remained closed during April. Power outages are also thought to have cut ExxonMobil's Yoho field supply by some 20 kb/d for the month although this production has now been re-instated. Strike action affecting ExxonMobil facilities from early May was also averted.

However, despite ongoing production shut-ins, there were offsetting increases. Agip's Brass River production, disrupted by a pipeline attack in March, fully returned in April. There were rising deepwater supplies too from the Bonga and newly started Erha fields. Bonga and Erha could build to combined production of 400 kb/d by end-2006, although for now any increment in assessed Nigerian capacity is being deferred until the fate of disrupted onshore and shallow offshore facilities is resolved. The Movement for the Emancipation of the Niger Delta (MEND) and associated groups continue to stress that oil installations and foreign oil workers remain subject to attacks unless their demands over prisoner releases and increased local control over oil revenues are met.

Venezuelan crude supply for April is assessed up by some 30 kb/d at 2.63 mb/d after the return to full production of the Cerro Negro upgrading unit which was offline for maintenance in March. Heavy crude feedstock production was partially scaled back while the unit was offline. Estimates for non-crude Orimulsion production have been revised for the 2002-2006 period (see below).

Early-May saw confirmation that Venezuela's four heavy crude upgrading projects, which convert 630 kb/d of heavy Orinoco crude into 570 kb/d of synthetic oil, will be subject to higher tax rates. Royalties are to be doubled to 33.4% from a current 16.7% and income tax will be raised from 34% to 50%. There have been suggestions that Venezuela may also seek to increase its stakes in the four projects from current levels of between 30% and 50% to a minimum of 51%.

Further upside adjustment for **Iranian** export levels, now assessed at 2.5 mb/d for March, result in a 100 kb/d revision for Iranian March crude supply. This is now estimated at 3.9 mb/d, falling back to 3.8 mb/d for April. Preliminary tanker tracking data shows divergent trends for April exports, but on balance suggest a further fall in supplies last month. This is subject to revision, however, when consolidated vessel data becomes available over the next month.

Against a backdrop of escalating uncertainty over potential UN action aimed at ending Iranian work on uranium enrichment, state NIOC insisted that crude exports remain unaffected by the diplomatic row. In a separate development, parliamentary sources suggested that the South Pars gasfield will be the priority for a new investment model. The existing buyback model of service contract offered to foreign companies will be retained for other oil and gas field developments, albeit in a modified form.

UAE supply for March is revised up to 2.67 mb/d from last month's assessment of 2.55 mb/d. Onshore production of Murban grade crude now appears to have risen close to 1.4 mb/d and UAE capacity has been revised up to 2.7 mb/d as a result. However, April supply is assessed slightly lower at 2.6 mb/d, under the impact of weaker Asian demand and prices. Lower supplementary volumes, over and above term, offered to customers suggest that supply could remain lower in May and June.

Expansion at the Al Dabbiya, Rumaitha and Shanayel fields since late-2005 has driven the increase in production capacity. Target production capacity of 3.5 mb/d for end-decade has been announced, with 30% of the increase earmarked to come from marginal field developments.

Venezuelan Orimulsion Supply Data Revision

Venezuela produces heavy crude from its Orinoco region reserves which is blended with lighter grades or converted into synthetic crude oil. It also produces a proprietary boiler fuel named Orimulsion, used for power generation. While heavy crude in blended form or destined for syncrude manufacture is included in this Report's estimates of Venezuela's monthly crude oil production, Orimulsion supply is, and always has been, counted in the OPEC NGL, condensate and non-conventional oil category. As such, it is excluded from consideration for Venezuela's crude oil production capacity and output quota.

Orimulsion is a mixture, or emulsion, of 70% bitumen from the Orinoco belt, 30% water and 1% surfactant. Originally combined to address the transportation problems associated with moving highly viscous Orinoco bitumen, research showed the mixture to be a technically viable boiler fuel, competing as an alternative to coal and heavy fuel oil. Orimulsion has traditionally been sold under long term contracts to power utilities in Canada, China, Denmark, Italy, Japan and Korea. A deal signed in 2001 between Venezuela and China envisaged construction of a new 6.5 million tonnes per annum plant to augment the existing Morichal facility.

However, while the new plant entered service in April 2006, this coincided with the mothballing of the older Morichal unit, reportedly for economic reasons. Since the 2002/2003 strike at PDVSA, there has been a policy shift away from Orimulsion, with greater emphasis given to more profitable sales of synthetic crude. Research by the OPEC Secretariat has revealed that earlier estimates of Venezuelan Orimulsion supply were too high. Estimates for Orimulsion production back to 2002 have been revised down accordingly, by between 18 kb/d (2002) and 70 kb/d (for 2005). The 2006 forecast is revised down by 84 kb/d in line with reports that the new plant will build output slowly and ultimately plateau at 110-120 kb/d.

Venezuela: Production of Orimulsion Fuel

(thousand barrels per day)

	2000	2001	2002	2003	2004	2005	2006
Estimate OMR April 2006	106	110	122	111	155	160	160
Estimate OMR May 2006	106	110	104	58	90	90	76
Difference	0	0	-18	-53	-65	-70	-84

OECD

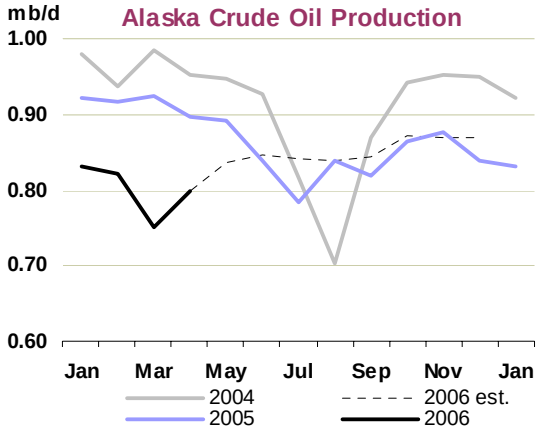
North America

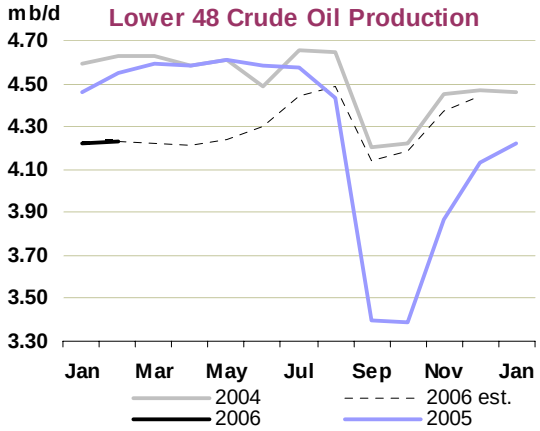
US – Alaska April actual, others estimated: April US oil supply averaged 7.2 mb/d (including 5.0 mb/d of crude oil) for the fourth month running, as US Gulf of Mexico (GOM) production recovery remained stalled and Alaskan production continued to suffer the after effects of the Prudhoe Bay pipeline spill. Despite this, the forecast for 2006 US supply has been revised up by 55 kb/d to 7.33 mb/d, still representing a rise of only some 50 kb/d from 2005's hurricane-impacted levels.

In Alaska, BP reported that the leak on its Prudhoe Bay pipeline which curbed production by 100 kb/d had been caused by a build up of bacteria which reduced the effectiveness of corrosion impeding chemicals. It had however restored 70 kb/d of lost production by late-April, rerouting these volumes via an alternative pipeline. Forecast Alaskan crude supply for 2006 of 835 kb/d is largely unchanged from last month, with modest year-on-year decline continuing the trend evident since 2003.

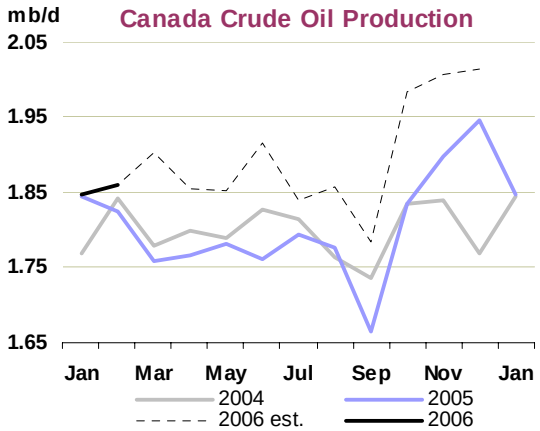
State production data for December and aggregated US data for the first quarter 2006 again show upward revisions against forecast for the GOM, Louisiana, and Colorado. The implication from the former two producing regions is that, despite ongoing reports of substantial volumes remaining shut-in after last year's Hurricanes Katrina and Rita, production performance from facilities back in operation is running ahead of expectation. Louisiana production is revised up by 10 kb/d for 2006, while GOM supply has been adjusted up by 35 kb/d.

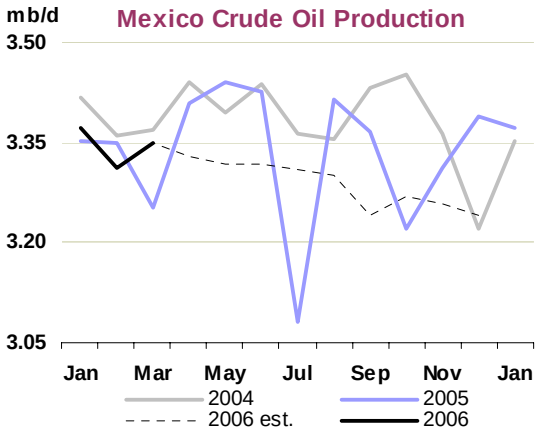
The US Minerals Management Service (MMS) reported on 3 May that 324 kb/d of GOM supply remains shut-in. We have revised up estimated shut-in volumes for April and May to 330 kb/d and 280 kb/d respectively, but have scaled back June average outages to below 200 kb/d. GOM supply now shows a year-on-year gain in 2006 of 80 kb/d, after net losses of 180 kb/d in 2005. Our GOM forecast remains low compared to some other projections, even after including a now more optimistic prognosis of second quarter re-start for Shell's Mars facility. However, we continue to forecast on the basis of a five year rolling average storm season, which assumes sizeable autumn outages in the area. The forecast also excludes any resumption of production in 2006 from the Typhoon field, a factor supported by Chevron's announcement that it is looking to demolish and sink its storm-damaged tension leg platform.





Canada – Newfoundland March actual, others February actual: While first quarter Canadian conventional crude production appears to have remained close to the 1.9 mb/d seen at the end of 2005, synthetic crude supply dropped by 60 kb/d (to 615 kb/d) due to outages affecting the Shell and Syncrude Canada facilities. However, Syncrude reported in early-May that it has now completed its expansion which will allow output to build over several months from an original 250 kb/d capacity to an eventual 350 kb/d. Partly offsetting the rise from syncrude and bitumen in 2006 (combined growth of 185 kb/d this year), is an extended outage affecting the offshore Newfoundland Terra Nova facility. Production in first half 2006 at Terra Nova is unlikely to exceed 80 kb/d of 130 kb/d capacity, while production will be shut altogether during 3Q while the tension leg platform heads for dry dock repairs.





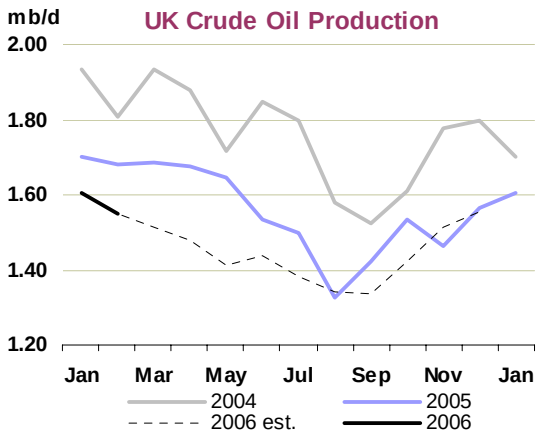
There were several indications in April that further expansion in the Canadian oil patch may be impeded by cost escalation and uncertainty over operating terms. Husky Oil announced it is rethinking its Sunrise upgrader project, citing a squeeze on labour and raw materials availability. After Chevron's announcement in early April that it was shelving the offshore Hebron development, Newfoundland authorities are seeking to introduce legislation that will force license holders to develop projects in a given time span or face expropriation.

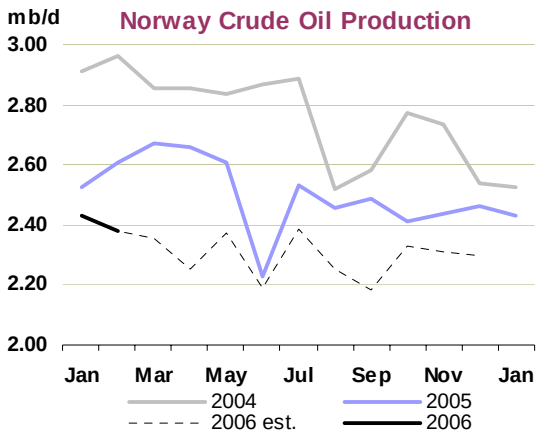
Mexico – March actual: Mexican March supply came in close to forecast at 3.35 mb/d of crude and 430 kb/d of NGL. First quarter crude exports averaged 2.0 mb/d, up by 150 kb/d from 2005 and over 100 kb/d above fourth quarter levels. With production running only marginally higher than year ago and quarter ago levels, the implication is that Mexican internal demand growth is being met with increased products imports rather than higher domestic refinery crude runs.

Total oil supply in 2006 is projected to fall by 25 kb/d to 3.73 mb/d after a decline of 65 kb/d in 2005. Marginal field developments, such as the recently started northern Gulf of Mexico Lobina field, are seen as insufficient to stem decline at established structures such as Cantarell.

North Sea

UK – February actual: Forecast UK oil supply for 2006 is largely unchanged from last month's projection. A 50 kb/d downward adjustment to February supply gives way to upward adjustments of between 10 kb/d and 30 kb/d for the second to fourth quarters. Loading schedules for the main systems for the March through May period suggest that additional downward adjustments after lower February out-turn are unwarranted. The increases later in the year compared to last month's projection affect the Forties, Fulmar, Beryl and Teal production systems. Some 15 kb/d of Brodgar/Callanish field output has been added to Forties supply for late 2006. In all therefore, offshore production averages 1.72 mb/d in 2006 from 1.8 mb/d in 2005. The next sizeable increase in UK production capacity will come from Nexen's Buzzard field, which was reported in early-May to be on schedule for late-2006 start up. An initial plateau production of some 100 kb/d next year (with 180 kb/d later) could temporarily halt overall UK decline in 2007.

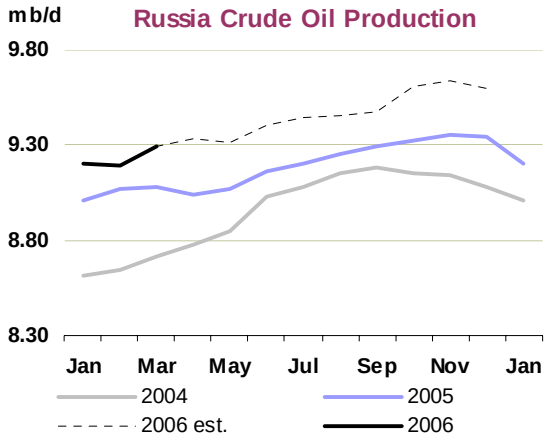




Norway – February actual, March provisional: Field specific data for February show higher Ekofisk, Haltenbanken and condensate supply than assumed last month, but an unchanged aggregate supply level. This totalled 2.4 mb/d of crude and 535 kb/d of NGL/condensate. Counteracting February reductions affect the Oseberg/Troll and Statfjord/Gullfaks systems. A 30 kb/d downward adjustment to 2006 Norwegian supply is centred on lower baseline supply from these fields. Provisional March data show a 50 kb/d drop in total liquids supply, while peak spring maintenance in April is likely to have seen production drop by a further 100 kb/d, to 2.25 mb/d of crude and 500 kb/d of other liquids. A rebound in supply is expected in May, before heavy maintenance kicks in again in June, August and September. In all, lighter scheduled maintenance in 2006, allied to new production from the Kristin, Fram East and Gullfaks and Oseberg satellites helps stem liquids decline this year. Total oil supply falls by 100 kb/d to 2.86 mb/d in 2006 after a sharper 220 kb/d fall in 2005.

Former Soviet Union (FSU)

Russia – March actual, April provisional: March and April Russian production has been revised down by 10 kb/d and 90 kb/d respectively compared to last month's Report. Output in March averaged 9.6 mb/d, with 9.62 mb/d in April. Production nonetheless seems to have recovered modestly from the weather-related disruptions seen in January and February. In all, first quarter growth averaged 2% versus year earlier, despite freezing weather, suggesting further recovery is possible for the balance of the year. Importantly, provisional April data show output from assets formerly held by Yukos and Sibneft growing for the first time since 2004. These companies underpinned the strong growth seen in Russian output during 2000-2004 but slumping investment since mid-2004 then saw these two operators become the main drag on Russian supply.





Huge uncertainty continues to surround prospects for these entities which have been, or are in the process of being, taken over by state producers Rosneft and Gazprom. On the upside, Rosneft suggested in April that it would adopt the erstwhile approach of its subsidiary Yuganskneftegaz in applying new technologies and improved reservoir management techniques to sustain production growth at existing fields. This Report retains a more downbeat forecast for the remaining independent Yukos producing assets until the fate of the bankruptcy-threatened company becomes clearer. In all, Russian production growth in 2006 is pegged at 2.5% following 2.7% in 2005 and 9% annually during 2000-2004.

FSU Net Exports of Crude & Petroleum Products

(million barrels per day)

	2004	2005	2Q2005	3Q2005	4Q2005	1Q2006	Jan-06	Feb-06	Mar-06	Latest month vs. Feb-06	Latest month vs. Mar-05
Crude											
Black Sea	2.20	2.27	2.38	2.30	2.23	2.25	2.03	2.28	2.46	0.18	0.07
Baltic	1.51	1.59	1.61	1.57	1.55	1.54	1.48	1.56	1.58	0.02	-0.05
Artic/FarEast	0.25	0.19	0.19	0.22	0.17	0.10	0.09	0.07	0.13	0.06	-0.04
Crude Seaborne	3.96	4.05	4.18	4.08	3.95	3.89	3.59	3.90	4.16	0.26	-0.02
Druzba Pipeline	1.10	1.15	1.10	1.14	1.23	1.20	1.20	1.21	1.18	-0.03	0.09
Other Routes	0.23	0.25	0.26	0.24	0.26	0.31	0.28	0.33	0.32	-0.01	0.10
Total Crude Exports	5.29	5.45	5.54	5.46	5.44	5.39	5.07	5.45	5.67	0.22	0.17
Of Which: Transneft	3.76	4.20	4.26	4.26	4.32	4.31	4.17	4.40	4.37	-0.03	0.22
Products											
Fuel oil	0.90	0.93	0.91	1.02	1.04	0.87	0.92	0.73	0.95	0.23	0.18
Gasoil	0.84	0.87	0.80	0.85	0.95	1.01	1.00	1.04	0.98	-0.06	0.07
Other Products	0.46	0.58	0.56	0.58	0.60	0.60	0.62	0.60	0.57	-0.03	0.00
Total Product	2.19	2.38	2.27	2.45	2.58	2.47	2.54	2.37	2.50	0.13	0.25
Total Exports	7.48	7.83	7.81	7.91	8.02	7.87	7.61	7.82	8.17	0.36	0.42
Imports	0.01	0.02	0.01	0.02	0.02	0.02	0.03	0.01	0.02	0.00	0.00
Net Exports	7.47	7.81	7.80	7.89	8.00	7.85	7.58	7.80	8.16	0.35	0.42

Sources: Petro-Logistics, IEA estimates

FSU net exports continued to recover in March from depressed January levels, reaching 8.16 mb/d from 7.8 mb/d in February. 65% of March's increase came from seaborne crude exports, notably liftings from Black Sea ports. A sharp rise in fuel oil exports was partially countered by lower shipments of gasoil and other products in March. Based upon provisional indicators, net FSU exports overall are thought to have moved higher in April and May. April's rise was likely driven by higher oil products offsetting lower Russian crude export volumes, notably due to pipeline maintenance affecting the Black Sea port of Novorossiysk. Transneft export schedules for May indicate a potential 175 kb/d increase in crude compared to April, with producers likely to want to maximise deliveries ahead of a 7% increase in export duty to $199.8/tonne on 1 June.

Update on New FSU Export Outlets

A number of developments in recent months have affected the prospects for, and timing of, potential expansion in FSU crude export capacity:

- The DeKastri terminal which will handle crude exports from Russia's **Sakhalin 1** project is due for completion in July 2006. Sakhalin liquids production is due to reach 250 kb/d later in 2006. Current Sakhalin production of 43 kb/d is routed to Rosneft's Komsomolsk refinery.

- Russia's President Putin instructed pipeline monopoly Transneft to re-route the **East Siberia-Pacific Ocean (ESPO) pipeline** 40 km north of the environmentally sensitive Lake Baikal. Although a token start to construction was announced on 28 April, uncertainty surrounds the project. Transneft reports that a feasibility study on the new route will take up to a year. It is unclear whether an initial 600 kb/d phase of the project, feeding crude to China, will ultimately be augmented by a second phase, feeding the Pacific Coast and taking capacity to 1.6 mb/d. Proven reserves in East Siberia may be insufficient to fill either phase of the line, potentially diverting West Siberian production from Europe. Targeted phase 1 completion by end-2008 may be overly ambitious.

- Latest market reports suggest the first cargo of Azeri crude from the Mediterranean port of Ceyhan via the 1.0 mb/d **BTC pipeline** will be lifted in late-May. Rising volumes of production from the Azeri-Chirag-Guneshli fields in the Caspian Sea have to date been exported via the Black Sea ports of Supsa, Batumi and Novorossiysk, but like other Black Sea flows these are subject to bottlenecks in the Turkish Straits. BTC completion also provides an alternative, if temporary, outlet for Russian and Kazakh crude, before rising Azeri production late-decade.

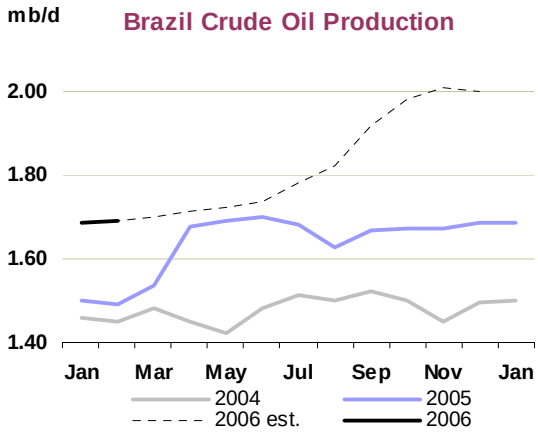
- It was reported in early-May that initial volumes of Kazakh crude had reached China via the recently completed 200 kb/d **Atasu-Alashankou pipeline**. Up to 135 kb/d (33 mb) of crude will be supplied to China via this route in May-December 2006, including some 30 kb/d of Russian crude. Flows are scheduled to reach pipeline capacity by end-2007.

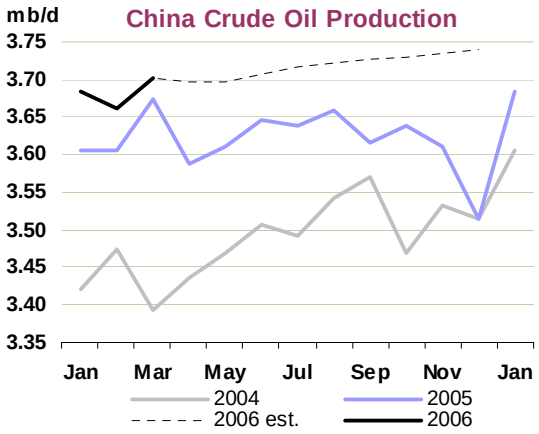
- A doubling of capacity of the **CPC pipeline** to 1.35 mb/d is scheduled for late-2007, subject to Russian approval. Russia holds a 24% stake in CPC and its port of Novorossiysk is the endpoint for the line. The new CPC General Director is a former official of Russian state oil company Zarubezhneft. Delays in CPC expansion could undermine plans to boost output at Kazakhstan's Tengiz project, although Tengizchevroil is lining up alternative, stop-gap export slots via rail to Odessa and Aktau. Russia has dragged its heels on CPC expansion, seeking higher tariffs and parallel development of a Turkish Straits by-pass as conditions for expansion.

- Turkey has approved ENI's proposed 1.0 mb/d **Samsun-Ceyhan** Turkish Straits by-pass pipeline. A competing project involving TNK-BP, Rosneft, Sibneft and Chevron announced the formation of a consortium to build the 1.2 mb/d **Bourgas-Alexandroupolis** pipeline. Both projects remain a long way from activation however.

Other Non-OPEC

Brazil – February actual: Output began on 21 April at the 180 kb/d P-50 platform at the Albacore Leste field in the deepwater Campos Basin. One of five new offshore developments due online in 2006, Albacore Leste received much fanfare as heralding Brazilian oil self sufficiency although, depending upon the definition of self-sufficiency, that event may actually be deferred until later in the year. Nonetheless, Brazil is likely to see a second consecutive year of 150-200 kb/d crude supply growth in 2006 as developments in the Campos, Sergipe and Espirito Santo Basins are brought into production. A near-doubling in Brazilian crude supply since the late-1990s has largely been achieved by state producer Petrobras. However, April saw announcements on progress at two foreign operated fields, Frade and Chinook, which could add a combined 200 kb/d of capacity by late decade. Operators of these fields are Shell and Norsk Hydro respectively.





China – March actual: Production for March came in 70 kb/d higher than expected, with output in most areas exceeding expectation. An earlier sharp decline in mature Daqing field output appears to have stabilised. The Chinese forecast is revised up by 30 kb/d for 2006 to 3.71 mb/d. This is the second straight year of near-100 kb/d growth, and is centred on offshore developments and higher production from the onshore Changqing and Yanchang fields. In addition to increasing forays into overseas upstream activity, Chinese operators are seeing growing results from onshore central and northwestern areas.

Revisions to Other Non-OPEC Estimates

Modest downward adjustments to forecast 2006 production apply to Turkmenistan and Uzbekistan based on first quarter data. This is despite March start-up of offshore Caspian Block 1 production by Petronas in Turkmenistan. A 15 kb/d downward adjustment for 2006 Malaysian supply tips the country's production into modest decline this year, oil output reaching 815 kb/d in 2006 from 827 kb/d in 2005. Supply for Oman in 2006 is revised down by 10 kb/d to 745 kb/d (including condensate), with ongoing decline unlikely to be turned around before 2008 when an extensive EOR programme kicks in. 2006 production for Chad is cut by 10 kb/d to 180 kb/d, flat versus 2005. However, threats of an imminent production stoppage have been averted by resolution of a funding dispute between the government and the World Bank. In contrast to otherwise mainly downward non-OECD adjustments, production for Sudan is revised up by 15 kb/d after much-delayed start at CNPC's Melut Basin fields.

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	14.09	14.25	0.17	14.09	14.33	0.24	0.00	0.07	0.07
Europe	5.64	5.41	-0.23	5.64	5.40	-0.24	0.00	-0.02	-0.02
Pacific	0.58	0.55	-0.04	0.58	0.55	-0.04	0.00	0.00	0.00
Total OECD	**20.31**	**20.22**	**-0.10**	**20.31**	**20.27**	**-0.04**	**0.00**	**0.05**	**0.05**
Former USSR	11.63	12.09	0.46	11.63	12.04	0.41	0.00	-0.05	-0.05
Europe	0.16	0.15	-0.01	0.16	0.15	-0.01	0.00	0.00	0.00
China	3.62	3.68	0.06	3.62	3.71	0.09	0.00	0.03	0.03
Other Asia	2.73	2.80	0.08	2.73	2.79	0.07	0.00	-0.01	-0.01
Latin America	4.28	4.48	0.19	4.29	4.48	0.19	0.00	0.00	0.00
Middle East	1.83	1.80	-0.03	1.83	1.79	-0.04	0.00	-0.01	-0.01
Africa	3.67	4.13	0.46	3.67	4.14	0.47	0.00	0.01	0.01
Total Non-OECD	**27.93**	**29.14**	**1.21**	**27.93**	**29.11**	**1.18**	**0.00**	**-0.03**	**-0.03**
Processing Gains	1.86	1.90	0.04	1.86	1.90	0.04	0.00	0.00	0.00
Total Non-OPEC	**50.10**	**51.25**	**1.15**	**50.10**	**51.28**	**1.18**	**0.00**	**0.03**	**0.03**

OMR = Oil Market Report

OECD STOCKS

Summary

- **OECD total industry oil stocks** fell by 17 mb in March as draws in product inventories largely outpaced a build in crude stocks. Upward revisions to the February baseline brought total oil inventories to 2620 mb in March, 74 mb above last year. Days of forward demand cover came to 54 days for the OECD as a whole, two days above last year and on par with February. Oil stocks for the first quarter this year bucked seasonal trends, building by 0.3 mb/d, or a total of 26 mb.

Preliminary Industry Stock Change in March 2006 and First Quarter 2006

(million barrels per day)

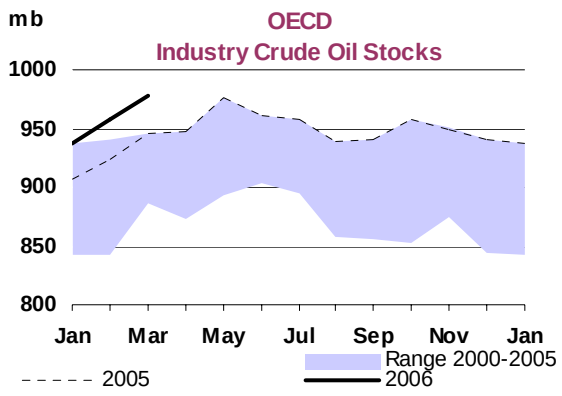
	March (preliminary)				*First Quarter 2006*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.38**	**0.09**	**0.17**	**0.64**	**0.20**	**0.15**	**0.06**	**0.41**
Gasoline	-0.43	-0.12	0.00	-0.55	0.10	0.03	0.03	0.15
Distillates	-0.45	-0.24	-0.06	-0.75	-0.16	-0.02	0.00	-0.17
Residual Fuel Oil	-0.05	-0.04	-0.05	-0.14	0.08	-0.04	-0.01	0.03
Other Products	-0.13	0.00	0.07	-0.06	-0.17	0.00	0.01	-0.16
Total Products	**-1.07**	**-0.39**	**-0.04**	**-1.50**	**-0.15**	**-0.03**	**0.03**	**-0.16**
Other Oils[1]	0.20	-0.03	0.12	0.30	0.00	0.02	0.01	0.04
Total Oil	**-0.49**	**-0.33**	**0.25**	**-0.56**	**0.06**	**0.13**	**0.10**	**0.29**

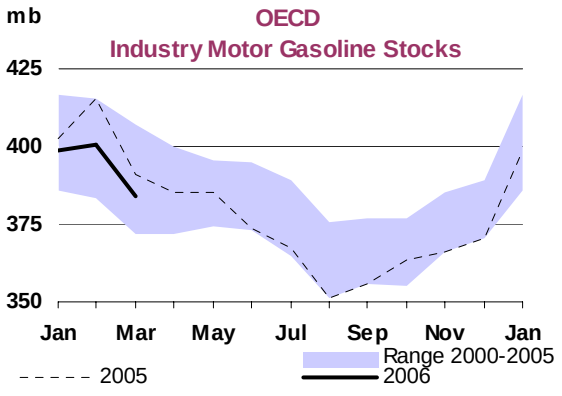
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude stocks** rose by 20 mb in March, with builds seen in all regions. The largest increase was seen in the US, where turnarounds and delayed restarts of hurricane-damaged refineries lowered domestic crude demand. In the Pacific, increasing Japanese crude stocks were partly offset by declines in Korea, where refiners reduced inventories ahead of scheduled maintenance. In Europe, diverging trends across countries left stocks relatively unchanged in comparison. At 978 mb in March, total OECD crude stocks were 31 mb above last year.

- **OECD industry gasoline inventories** fell by 17 mb in March to 384 mb, 7 mb below last year. The bulk of the decline came in the US as reduced product output and marginally lower imports pushed stocks down. Smaller declines were seen in Europe while Pacific inventories held flat. US gasoline stocks continued to fall in April as refinery utilisation rates remained at reduced levels. After nine consecutive weeks of draws, gasoline stocks rebounded in late April and early May following higher crude runs and record imports.

- **OECD industry distillate stocks** fell by 23 mb, ending March at 515 mb, 45 mb above last year. The stock draw was in line with seasonal trends and total distillate inventories remained above their five-year range. Distillate stocks were down in the Atlantic Basin in March on lower refinery output, and in the case of Europe also on strong gasoil demand. However, prompt prices on futures remained below forward prices, providing incentives to store gasoil.



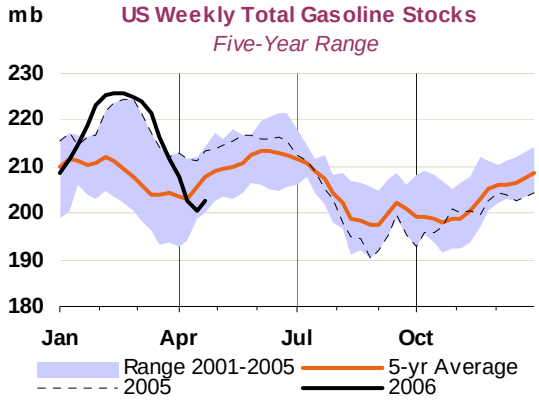


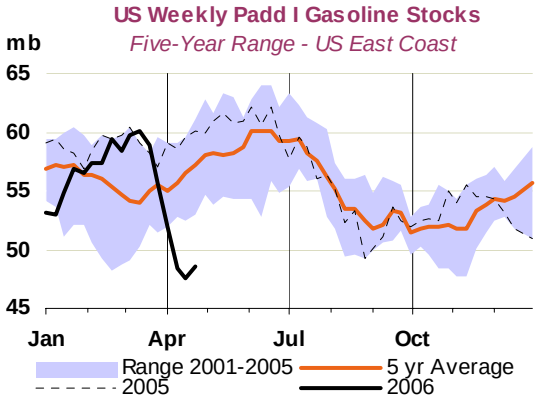
OECD Industry Stock Changes in March 2006

OECD North America

North American crude stocks increased by 12 mb in March to 475 mb. Upward revisions to the February baseline pushed the year-on-year surplus to 41 mb above last year. The build was most significant in the US, where refinery maintenance reached its seasonal peak. Lower crude demand due to unplanned outages as well as delays in re-starts also supported a build in inventories despite lower imports.

The upward trend in US-50 crude inventories continued in April, with stocks rising 4 mb to 347 mb (their highest level since May 1998). A substantial portion of US refinery capacity remained offline during the month, depressing crude demand. Delays to re-starts and unplanned outages slowed a resumption in crude runs, notably on the Gulf Coast where inventories were seen rising strongly at end-month. Similarly, stocks at Cushing, the delivery point for the NYMEX WTI contract, continued to trend at high levels, depressing prompt prices. This maintained a contango structure for crude futures, providing favourable storage economics. However, as more refineries exit maintenance in May and imports remain hindered by unfavourable spot arbitrage trade in Atlantic Basin light-sweet crude, stocks should come down from recent highs.

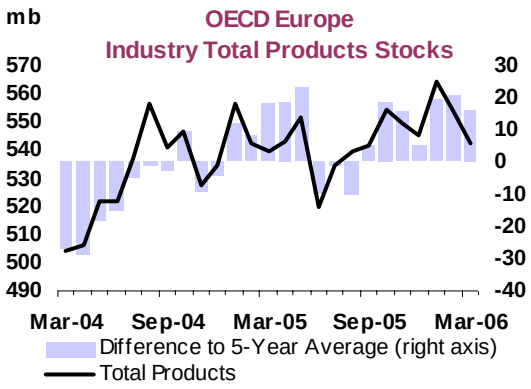




North American product stocks fell by 33 mb in March. The US saw large declines in gasoline and distillate inventories stemming from lower product output. Refinery utilisation rates remained low in April, improving only at the tail-end of the month, leading to further product stock draws. Gasoline stocks saw the sharpest fall in April and these are now trending at the bottom of their five-year range. The fall occurred as winter grade material and MTBE-blended RFG was cleared out of tank. But an increase in blending components broadly offset the decline. As such, the transition away from RFG appears to be running smoothly. Some localised shortages have emerged however, notably in Texas, pushing RFG prices on the Gulf Coast to a premium versus New York Harbour. After nine consecutive weeks of draws, gasoline stocks rebounded in late April and early May following higher crude runs and record high imports. The prospect of improved gasoline supplies as refiners return from maintenance has depressed forward gasoline prices, removing the financial incentive to hold stocks. US-50 distillate inventories fell by 7 mb in April due to lower refinery output and seasonally falling imports.

OECD Europe

European crude oil stocks built by 3 mb in March to 340 mb, or 3 mb below last year. Inventories built in France, Germany, Italy and the Netherlands where turnarounds reduced crude requirements. More than 0.5 mb/d of refinery capacity was estimated offline in these countries in March. Stock draws in the UK and Norway partly offset the move. Demand for North Sea supplies was supported by disruptions to Nigerian output. In April, North Sea field maintenance coincided with a return of NWE refiners from turnarounds, further tightening supplies. The tightness maintained Brent's premium to WTI through mid-April, limiting transatlantic spot arbitrage shipments.

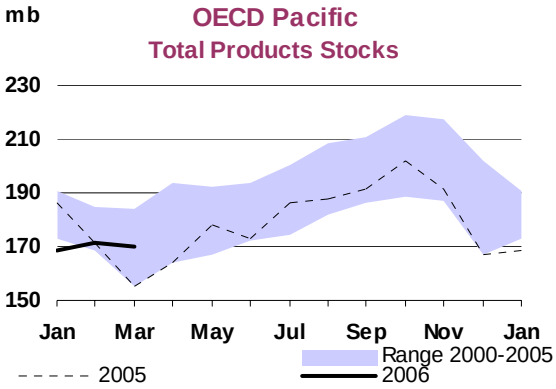


European product inventories fell by 12 mb in March to 542 mb, or 2.5 mb above last year. This followed from lower refinery output, exports to the US and robust demand. Demand for diesel was strong as it was for heating oil in main consuming countries. Demand for gasoil was supported by colder than normal weather. German consumer stocks of heating oil fell to 45% in March from 49% at the end of February, 1% below last year. Industry distillate stocks fell 7 mb. Gasoline stocks fell by 4 mb, mainly on lower refinery output and exports to the US, Mexico and Nigeria. European gasoline swap prices saw a sharp reduction in their contango in April, encouraging traders to move some product out of storage. Preliminary data for April indicate falling European gasoline stocks following surging shipments to the US. At the same time, middle distillate and fuel oil inventories appeared to build as refinery runs increased. The contango structure in paper markets for these products also supported the increase in storage.

OECD Pacific

OECD Pacific crude stocks increased to 163 mb in March, or 6 mb below last year. Japanese crude stocks built by 10 mb, as relatively high imports and lower direct crude burning by utilities mitigated continued high throughputs. Weekly data from the Petroleum Association of Japan show that onshore crude stocks held relatively steady in April, despite lower refinery runs. In the week ending 6 May, utilisation rates averaged 82%, compared to 91% at the end of March and in line with historical averages. Scheduled maintenance in Japan is expected to peak in May with almost 1 mb/d of capacity offline. Korean crude stocks, in contrast, fell by 5 mb in March following a drop-off in tanker arrivals ahead of scheduled maintenance.

Total product inventories in the Pacific were relatively unchanged in March at 170 mb, or 15 mb above last year. Japanese middle distillate stocks fell by 4 mb but were offset by increases in Korean inventories. Korean distillates rose despite lower refinery output, as product demand was exceptionally weak. The draw in Japanese middle distillate stocks came entirely in kerosene stocks and was in line with seasonal trends. Refinery yields shifted towards the production of diesel and jet fuel and away from kerosene. In April, with the exception of high sulphur fuel oil, Japanese finished product stocks trended lower with declining refinery runs.



OECD Inventory Position at End-March and Revisions to Preliminary Data

Total OECD industry stocks ended March at 2620 mb, 17 mb below February, and 74 mb above last year. The year-on-year additions were evenly split between crude and products, with product inventories trending above year-ago levels for all regions. The higher crude stocks were entirely based in North America. Days of forward demand cover came to 54 days for the OECD as a whole, on par with last month and two days higher than in 2005. On a regional basis, demand cover came to 50 days for North America, 63 days for Europe and 50 days for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for March 2006

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**40.8**	**-3.2**	**-6.2**	**31.4**	**Total Oil**	**2.2**	**0.2**	**1.6**	**1.5**
Total Products	18.5	2.5	15.0	36.1	*Versus 2004*	3.9	2.3	-1.0	2.6
Other Oils[1]	2.4	-0.6	4.5	6.3	*Versus 2003*	3.9	2.4	-1.1	2.5
Total Oil	**61.8**	**-1.3**	**13.3**	**73.8**	**Total Products**	**0.6**	**0.4**	**1.8**	**0.7**
Versus 2004	116.8	36.0	2.4	155.2	*Versus 2004*	1.7	2.5	1.0	1.8
Versus 2003	158.3	41.2	-8.1	191.4	*Versus 2003*	1.5	2.1	0.9	1.5

1 includes feedstocks, NGLs and other hydrocarbons

Preliminary data for February 2006 has been revised up by 22 mb. Upward revisions to North America and Europe offset a downward revision to Pacific inventories. The main change was seen in crude stocks. US, Canada and Italy were all revised up by more than 5 mb, but smaller revisions were also made to Germany, UK, EC10 and other Europe. Japanese crude inventories were revised down by 5 mb once offshore stock changes were included. Smaller upward revisions to residual fuel oil and other products were also noted, mostly accounted for by the US. January data was revised up by 12 mb, predominantely due to an upward revision to Canadian crude stocks.

Revisions versus 12 April 2006 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Jan 06	Feb 06	Jan 06	Feb 06	Jan 06	Feb 06	Jan 06	Feb 06
Crude Oil	**13.1**	**11.3**	**-0.9**	**11.4**	**-0.5**	**-4.1**	**11.7**	**18.6**
Gasoline	0.0	1.1	-0.9	-1.4	-0.3	-0.6	-1.2	-0.9
Distillates	0.0	-2.5	0.6	1.7	0.0	0.4	0.6	-0.4
Residual Fuel Oil	0.0	1.8	-0.1	0.4	0.0	-0.1	-0.1	2.1
Other Products	0.0	2.9	0.2	-0.1	0.0	0.6	0.2	3.4
Total Products	**0.0**	**3.3**	**-0.2**	**0.5**	**-0.2**	**0.3**	**-0.5**	**4.2**
Other Oils[1]	0.3	-4.1	-0.7	2.6	0.0	0.3	-0.4	-1.2
Total Oil	**13.4**	**10.5**	**-1.9**	**14.5**	**-0.7**	**-3.4**	**10.8**	**21.6**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

Recent Developments in ARA Independent Storage

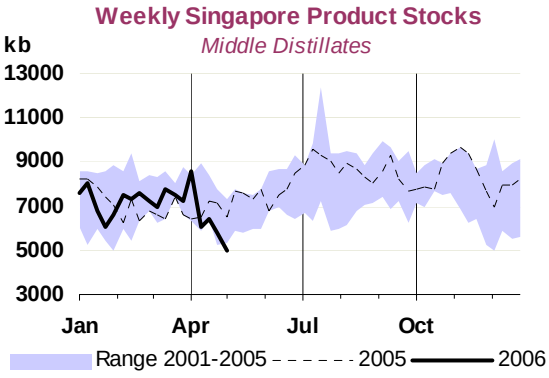
Inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area rose in April, as builds in gasoil and fuel oil stocks outpaced draws in other products. Gasoil inventories returned above their five-year range as spring weather reduced demand for heating fuels in Northern Europe. Strong crack spreads for diesel and jet fuel, partly due to US bound exports, encouraged refiners to increase yields for these products. A steady contango on IPE gasoil futures also encouraged traders to keep product in storage. FSU and Scandinavian gasoil inflows further added volumes to ARA tanks.

Fuel oil inventories rose sharply in April from the two-year low reached in the last week of March. High inflows of Baltic supplies and reduced shipments to Asia supported the build. Normalised gas supplies in southern Europe also lowered demand for low-sulphur fuel oil.

Gasoline stocks fell in April but were still trending at the upper-end of their five-year range. Gasoline spot price differentials between North West Europe and New York harbour peaked above $25/bbl in mid-April, leading to a surge in gasoline shipments to the US. High US prompt gasoline prices eventually led ARA swaps to flip into backwardation, encouraging sales from storage to meet demand for transatlantic shipments.

Recent Developments in Singapore Stocks

Singapore product inventories, as surveyed by International Enterprise, fell in April as rising residues were offset by declines in light and middle distillate stocks. After a sharp fall in March, residue inventories rose in April, on heavy arrivals of high-sulphur fuel oil from Russia and Europe. Limited Chinese buying, due to high outright prices, also supported the build. Low sulphur fuel oil supplies were tighter in comparison. Limited Indonesian and South Korean supplies were bid-up by utility buying from Taiwan and Thailand. Demand was also reported from Japan, where refiners are rebuilding fuel oil stocks ahead of peak summer demand.



Distillate inventories fell to below their five-year range in April. Regional supplies fell on refinery turnarounds in Asia and the Middle East. Gasoil availability was particularly tight, following heavy exports of product to Africa in March. Product price strength on the US West Coast also drew incremental supplies, with forward pricing also supporting sales from storage. In contrast to IPE and NYMEX futures, prompt gasoil swaps in Singapore were priced at a premium to forward prices.

Light distillate inventories, including naphtha and gasoline, similarly fell in April as regional refinery maintenance reduced supplies. The move appeared gasoline driven. The removal of the Chinese export rebate on gasoline and naphtha in mid-March cut Chinese gasoline exports, further reducing regional availabilities. Steady demand from the Middle East and Vietnam as well as higher exports to the US supported the gasoline draw. In contrast, regional naphtha supplies remained ample in April on high supplies from India. At the same time, maintenance at petrochemical plants in Taiwan and Korea and some switching to cheaper LPG reduced demand.

PRICES

Summary

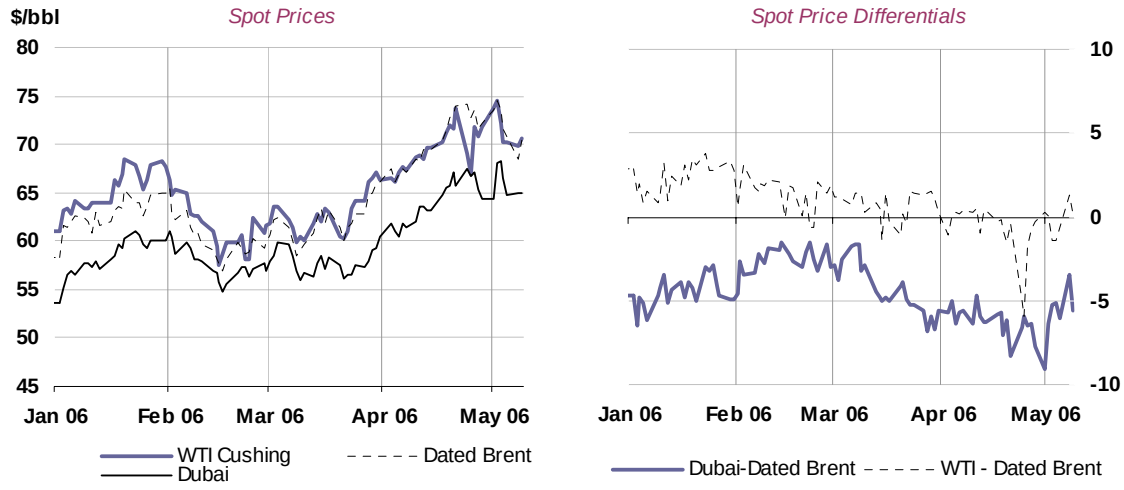
- **Crude futures** continued to make strong gains in April with NYMEX WTI rising on average by $7.19/bbl and IPE Brent by $7.51/bbl. Crude futures corrected in early May, falling towards $70/bbl following an unanticipated build in US gasoline stocks. Prompt month NYMEX futures reached a high of $75.17/bbl at close on 21 April while Brent hit $74.57/bbl. Gains in crude futures were led by a sharp rise in gasoline prices along with stronger political rhetoric from Iran. The increase came against a backdrop of continued disruption to Nigerian supplies and low spare production capacity. Futures remained in contango in the near 3 months, but the forward curve flattened with time spreads of further forward contracts narrowing against the prompt month. Speculative length and open interest on the NYMEX WTI increased dramatically.

- **NYMEX unleaded gasoline** dominated movements in products futures, increasing on average by $12.31/bbl in April before giving back some gains in early May. The strong rise followed a sharp decline in US gasoline inventories. The price spread between the RBOB and unleaded gasoline contracts remained broadly stable through April and both contracts were in backwardation in the near months. NYMEX heating oil futures also rose and its crack spread held above seasonal averages. Speculative length on the contract was also high, reflecting concerns over transition to ultra-low sulphur diesel.

- **Physical crude** price differentials between benchmark grades reflected refinery maintenance in the US and in Asia. Cash prices for WTI and Dubai crude were weak relative to Brent, effectively closing spot arbitrage opportunities for European and West African crudes. WTI and Dated Brent moved in and out of parity while Brent quotes in Asia saw their premium to Dubai swaps widen on average in April to $5.71/bbl. Premiums for Nigerian light-sweet crude remained high relative to Brent, supported by strength in gasoline and continued disruption to the country's crude supplies. Urals in both Northwest Europe and the Mediterranean saw its discount relative to Brent widen further on increased competition from comparable grades and reduced refiner demand.

- **Physical product** prices saw strength in US gasoline values pull European and Asian prices higher. Quotes for unleaded gasoline in New York Harbour were up on average by $14.63/bbl in April. Fuel oil prices reached record levels on an absolute basis, rising with crude prices, but crack spreads were weaker across markets surveyed. Distillate prices were also strong, with increases trailing just behind those for gasoline. Singapore and New York Harbour were the strongest markets for jet fuel and gasoil. Asian prices were up on tighter supplies following deepening refinery turnarounds and reduced spot availabilities due to high exports out of the region in March.

Benchmark Crude Oil Prices



Oil Futures Prices

NYMEX WTI and IPE Brent posted strong increases in April but gave back some of the gains in early May as US weekly oil statistics bucked market expectations by showing a build in gasoline inventories. Both futures contracts breached $74/bbl before falling back towards $70/bbl in the first week in May. Increases in gasoline futures were among the key factors lifting crude prices higher in April. Outside of a rebound in Iraqi exports, there was only modest improvement in crude oil supply and refinery upgrading capacity constraints remain. Hurricane-related outages in the Gulf of Mexico stayed above 300 kb/d and disruptions to Nigerian supply held in place against a backdrop of low global spare production capacity.

Economic performance by the world's two leading oil consumers was strong in the first quarter with both the US and China posting healthy GDP growth. Adding fuel to the fire in fundamentals was stronger rhetoric surrounding Iran's uranium enrichment program. Strength in prompt prices for gasoline kept the contract in an unusual backwardation ahead of the summer driving season. Heating oil futures also rose, but in contrast to gasoline, the forward curve was displaying seasonally increasing forward prices in the second half of the year.

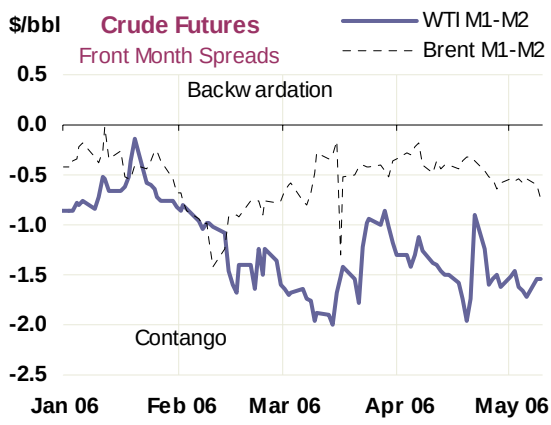
Prompt Month Oil Futures Prices

(monthly and weekly averages, $/bbl)

	Feb	Mar	Apr	Apr-Mar Avg Change	%	Week Commencing: 03 Apr	10 Apr	17 Apr	24 Apr	01 May
NYMEX										
Light Sweet Crude Oil	61.93	62.97	70.16	7.19	10.3	67.07	68.92	72.21	72.20	72.14
Unleaded Gasoline	64.21	75.30	87.61	12.31	14.1	81.33	86.76	93.12	89.04	87.72
Rbob	65.42	80.49	93.04	12.54	13.5	88.11	92.28	97.73	93.89	95.12
No.2 Heating Oil	70.84	74.73	83.11	8.38	10.1	78.62	82.52	86.23	84.93	84.29
No.2 Heating Oil ($/mmbtu)	12.16	12.83	14.27	1.44	10.1	13.50	14.17	14.80	14.58	14.47
Henry Hub Natural Gas ($/mmbtu)	7.52	6.98	7.26	0.28	3.9	7.02	6.93	7.96	7.07	6.75
IPE										
Brent	61.14	63.03	70.54	7.51	10.6	67.09	69.53	73.09	72.25	72.48
Gasoil	72.43	75.21	83.15	7.95	9.6	79.09	81.43	85.60	86.15	85.31
Prompt Month Differentials										
NYMEX WTI - IPE Brent	0.78	-0.06	-0.38	-0.32		-0.02	-0.61	-0.88	-0.05	-0.34
NYMEX No.2 Heating Oil - WTI	8.91	11.76	12.95	1.18		11.55	13.60	14.02	12.74	12.15
NYMEX Unleaded Gasoline - WTI	2.29	12.33	17.45	5.12		14.26	17.84	20.92	16.85	15.57
NYMEX 3-2-1 Crack	4.50	12.14	15.95	3.81		13.36	16.43	18.62	15.48	14.43
NYMEX No.2 - Natural Gas ($/mmbtu)	4.64	5.85	7.00	1.15		6.48	7.23	6.84	7.51	7.72
IPE Gasoil - IPE Brent	11.29	12.18	12.61	0.44		12.00	11.90	12.51	13.91	12.83

Crude Futures

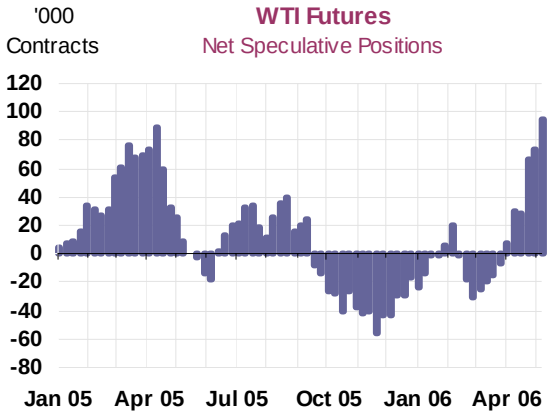
IPE Brent futures peaked at $74.57/bbl at close on 21, April while NYMEX WTI reached $75.15/bbl. Crude futures remained in contango in April. Prompt month prices were more heavily discounted on the NYMEX than on the IPE, reflecting comfortable US inventories during a period of low refinery utilisation rates. Crude stocks at Cushing, where the NYMEX contract is physically delivered, trended around recent record highs, keeping the May contract weak relative to June delivery when the US refining system is expected to maximise runs. This relative weakness in the NYMEX prompt contract allowed IPE Brent to trade mostly above WTI during mid-April. Brent also drew support from ongoing outages in Nigerian crude supplies (which are priced off the physical Brent market).

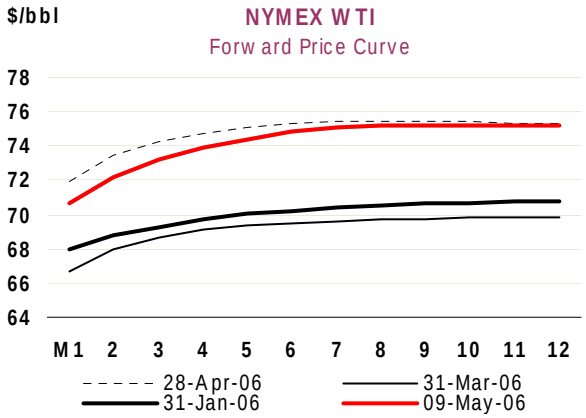


Forward curves for IPE Brent and NYMEX WTI shifted up in April, driven higher by strong gains in gasoline. The back end of the curves, however, flattened compared to March with the contango in the 6th to 12th month contracts relative to the prompt month narrowing. While supply constraints did not fundamentally worsen from March, the market further factored-in developments surrounding

Iranian nuclear issues. Non-commercial players on the NYMEX pushed their holdings of long positions to a record 216,298 contracts, or to a net buying position of 94,094 contracts by 2 May. Open interest in options and futures combined (or the amount of outstanding positions that need to be settled) also reached a record high.

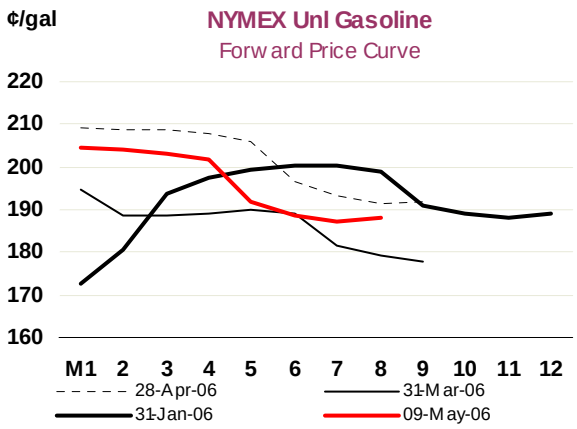
Premiums along the forward curve for WTI relative to Brent improved somewhat in April, but differentials, even in the summer months when US throughputs are maximised, were still averaging a premium of under $1.50/bbl, a level below that typically required to entice spot trade of Brent-related crude to the US. While downside risks to demand exist on potentially slower economic growth, the strength in prompt month futures against forward values is likely to continue, tightening nearby time spreads. Concerns surrounding Nigeria and Iran remain in place. At the same time Atlantic Basin crude demand is expected to increase rapidly, barring unplanned delays in the completion of refinery maintenance programmes.

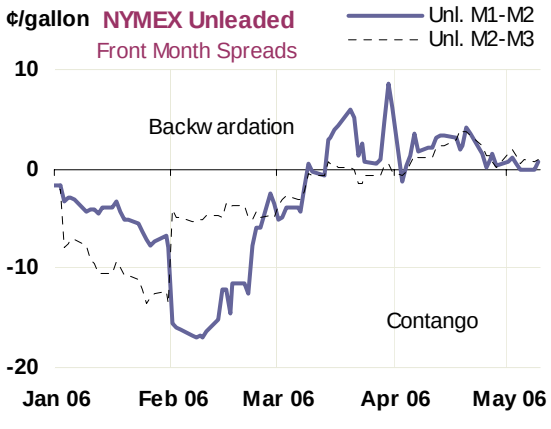




Product Futures

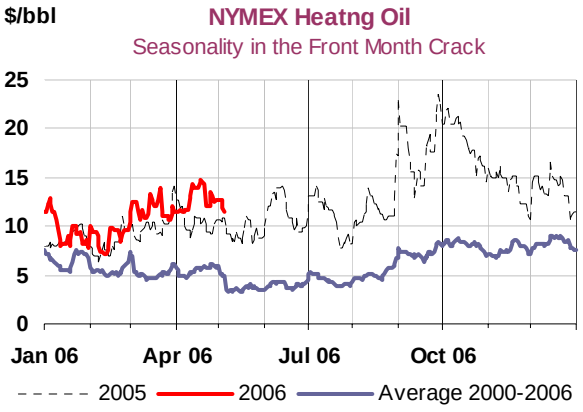
US gasoline futures posted strong gains on average in April with US stocks declining sharply over the month on supply-driven factors. The unleaded and RBOB contracts on NYMEX posted broadly similar changes, increasing by over $12/bbl, before retreating in early May. Gasoline storage continued to be turned over eliminating MTBE blended RFG gasoline ahead of the removal of liability protection. At the same time, conventional material supply was depressed due to refinery maintenance and lower gasoline imports. After consecutive weeks of draws, a small stock build (against market expectations) in early May prompted a sell off. However, the increase in stocks was not extravagant by any seasonal measure, and it remains to be seen whether the price correction proves sustained. The forward curve held in backwardation, offering no financial incentive to store product.

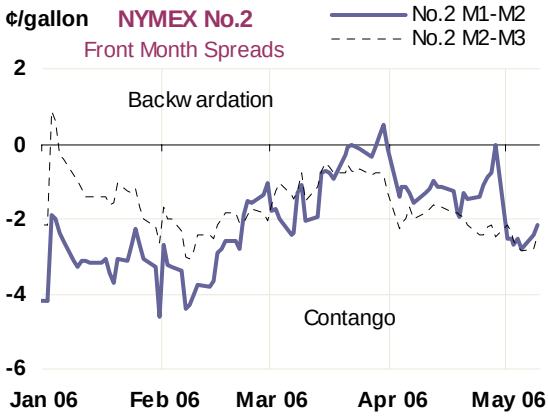




However, near-month spreads converged by end-month and are expected to eventually shift into contango in May. Tighter supply conditions supporting the front end of the curve will subside as domestic output rises, encouraged by a strong prompt month crack spread. Also, imports will bounce back on the arrivals of foreign supplies attracted by strong price differentials in April. At the same time, gasoline demand is likely to gain momentum, lifting forward prices relative to the prompt

month. While February US gasoline demand numbers were revised lower and April preliminary figures showed no growth, demand will still trend seasonally higher ahead of the summer driving season. The relative strength at the front end of the curve has likely had a depressing effect further out; cracks for gasoline by year-end were, at the time of writing, weaker against historical averages for the fourth quarter.

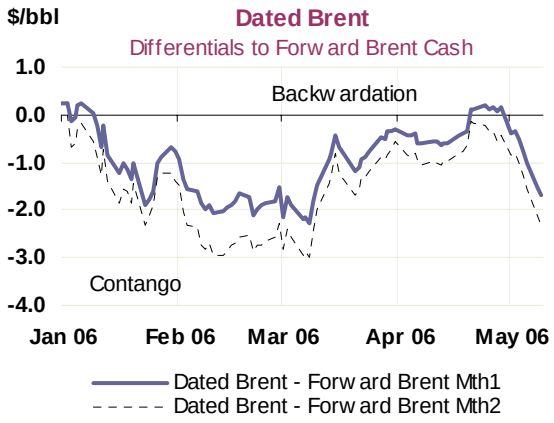


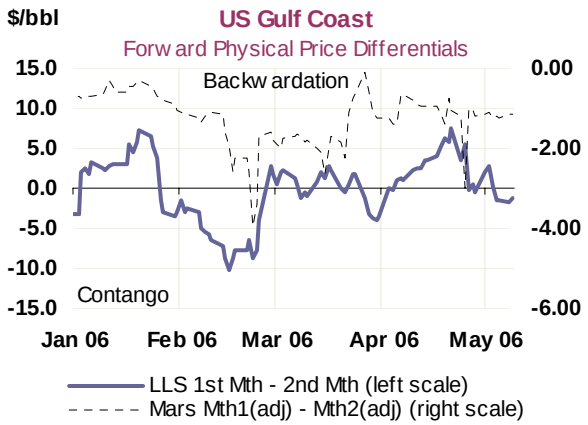


Heating oil futures were also up but gains trailed those of gasoline. The shape of the forward curve was in line with seasonal patterns with forward premiums to the prompt month rising through the end of the year. Heating oil cracks were, like last year, above seasonal norms. The underlying strength appears to derive from diesel rather than heating oil. This year, US on-road diesel will see a sharp reduction in sulphur content, from as much as 500 ppm to 15 ppm. Although refiners appear ready to produce within specification, concerns of contamination during transport are leading pipeline operators to restrict distance travelled by the product from the Gulf Coast for delivery into the northern US. Consequently concerns have emerged over local supply outages. Diesel prices, like those for gasoline also garnered support from reduced domestic output and lower imports. Speculative length on the heating oil contract increased during April, averaging above levels typically seen for this period.

Spot Crude Oil Prices

Relative movements in benchmark prices reflected weaker crude demand in the US and in Asia due to ongoing or deepening refinery maintenance and more generally, in the case of Asia, a worsening of fuel oil cracks relative to Dubai and Oman. As a result, Dated Brent strengthened relative to WTI and Dubai in April, its price rising on average by $8.25/bbl compared to $6.64/bbl and $6.33/bbl for WTI and Dubai respectively. Brent crude itself was buoyed by continued disruption to the Forcados and EA streams in Nigeria as well as field maintenance lowering supplies in the North Sea. WTI was on average discounted to Dated Brent by 0.88/bbl while the premium for Brent (quoted in Asia) over Dubai swaps, which shapes arbitrage flows between Asia and the West, widened to $5.71/bbl.





In the Atlantic Basin, forward physical markets either moved into, or further entrenched their backwardated structure in April. A stronger prompt month during April for delivery in May and early June reflected the anticipated exit of refiners from maintenance and the ramp-up of runs ahead of the summer season. Dated Brent reversed this trend in early May, prompt prices weakened with European

refiners reportedly having covered crude needs early for the month. In the US, refiners shied away from foreign light-sweet grades as weak WTI prices relative to Brent made shipping grades such as Bonny Light uneconomic. Differentials on the US Gulf Coast saw domestic grades rise against WTI. As such, light-sweet LLS's premium to WTI widened from an average of $1.51/bbl in March to $1.97/bbl in April. More strikingly, discounts for medium-sour and heavy crude were at odds. Medium-sour WTS and Mars gained on average $1.50/bbl and nearly $2.00/bbl respectively while heavy Mexican Maya held flat on plentiful exports. Increased hydro-treating capacity and firming runs by end-April early May helped to strengthen medium sours but offline crude distillation and coking capacity or delays in the start-up of larger facilities such as BP's Texas City refinery helped to hold discounts for heavier crudes like Maya at around March levels.

Strong gasoline prices and improved cracking margins supported Brent and related West African and North Sea crudes, these retaining their premiums to the benchmark in April. Strength in light products, including diesel and jet fuel, also provided support to more distillate-heavy crudes. Nigerian Qua Iboe and Bonny Light were trading on average at close to a $1.50/bbl premium while Norwegian Oseberg (part of the Brent benchmark) held at $0.37/bbl. Disruption to Nigeria's EA and Forcados streams continued to buoy prices, opening opportunities for cheaper alternative Mediterranean crudes like Saharan Blend to move to the US in April. Strength in crudes priced off Brent and a wider Brent premium over Dubai led to Angolan grades being re-offered into the market, China's Unipec selling Girassol cargoes loading in May. Girassol values however strengthened against Brent, outperforming Cabinda by end-April, a stronger price reflecting upcoming field maintenance in May and June.

Russian Urals values were weak against Brent in April despite relatively attractive cracking margins. Urals saw its average discount to Brent fall to about $5.40/bbl in both Northwest Europe and the Mediterranean as interest in the grade appeared muted due to refinery maintenance. A number of end-April cargoes were reportedly unsold while some Baltic supplies originally destined for China were re-offered on to the market. Urals also came under pressure from competing Iranian supplies in the Mediterranean, and from a pricing standpoint, by a reduction in Saudi Arabia's price formula to European customers and expectations of higher export programmes in May. Urals discounts are expected to narrow as runs resume after maintenance work and incremental demand emerges on improved hydroskimming margins, these turning positive in early May in Northwest Europe.

Spot Crude Oil Prices and Differentials

(monthly and weekly averages, $/bbl)

	Feb	Mar	Apr	Apr-Mar Avg Change	%	Week Commencing: 03 Apr	10 Apr	17 Apr	24 Apr	01 May
Crudes										
Dated Brent	60.12	62.09	70.35	8.25	13.3	66.99	68.91	72.34	72.85	72.76
Brent (Asia) Mth1 adjusted	61.99	63.38	70.56	7.18	11.3	67.20	69.50	72.55	72.77	73.51
WTI (Cushing) Mth1 adjusted	61.57	62.82	69.46	6.64	10.6	66.95	68.94	71.76	70.10	72.15
LLS Mth1 adjusted	62.22	64.33	71.44	7.10	11.0	68.40	70.49	73.62	73.04	74.39
Mars Mth1 adjusted	53.39	54.97	63.59	8.62	15.7	60.22	63.23	66.05	64.78	65.73
Urals (Northwest Europe)	57.08	57.87	64.90	7.02	12.1	62.21	64.12	66.54	66.57	66.34
Urals (Mediterranean)	57.06	58.11	64.95	6.84	11.8	62.31	64.31	66.67	66.39	66.42
Bonny Light (Dated)	62.12	63.80	71.80	8.00	12.5	68.65	70.70	73.82	73.83	73.81
Cabinda (Dated)	58.32	60.42	68.34	7.92	13.1	65.16	67.18	70.40	70.39	70.24
Dubai Mth1 adjusted	57.61	57.82	64.14	6.33	10.9	61.31	63.09	65.74	66.22	66.93
Dubai Swaps Mth1 adjusted	57.89	58.76	64.85	6.09	10.4	62.04	63.88	66.35	66.93	67.56
Basrah Light (Dated)	53.08	54.57	63.42	8.85	16.2	60.14	62.98	65.94	64.53	65.01
Minas (Dated)	61.35	62.30	69.17	6.87	11.0	65.91	68.04	70.95	71.56	72.76
Tapis (Dated)	66.74	66.79	74.21	7.42	11.1	70.77	73.22	76.24	76.42	77.02
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	1.45	0.73	-0.88	-1.62		-0.05	0.03	-0.59	-2.75	-0.61
Urals (Mediterranean)	-3.07	-3.99	-5.40	-1.41		-4.69	-4.60	-5.68	-6.46	-6.34
Urals (Northwest Europe)	-3.04	-4.22	-5.45	-1.23		-4.78	-4.79	-5.81	-6.28	-6.42
Bonny Light	2.00	1.71	1.46	-0.25		1.66	1.79	1.48	0.98	1.05
Dubai Mth1 adjusted - Dated Brent	-2.52	-4.28	-6.20	-1.93		-5.68	-5.82	-6.60	-6.63	-5.84
Dubai Swaps - Brent Asia	-4.10	-4.62	-5.71	-1.09		-5.16	-5.62	-6.19	-5.84	-5.95
Tapis (Dated)	6.62	4.70	3.87	-0.83		3.77	4.32	3.90	3.57	4.26
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-0.80	-0.51	-0.42	0.09		-0.42	-0.42	-0.33	-0.52	-0.50
Forward WTI Cushing Mth1-Mth2 adj.	-1.26	-1.40	-1.83	-0.43		-1.24	-1.41	-1.69	-2.90	-1.55

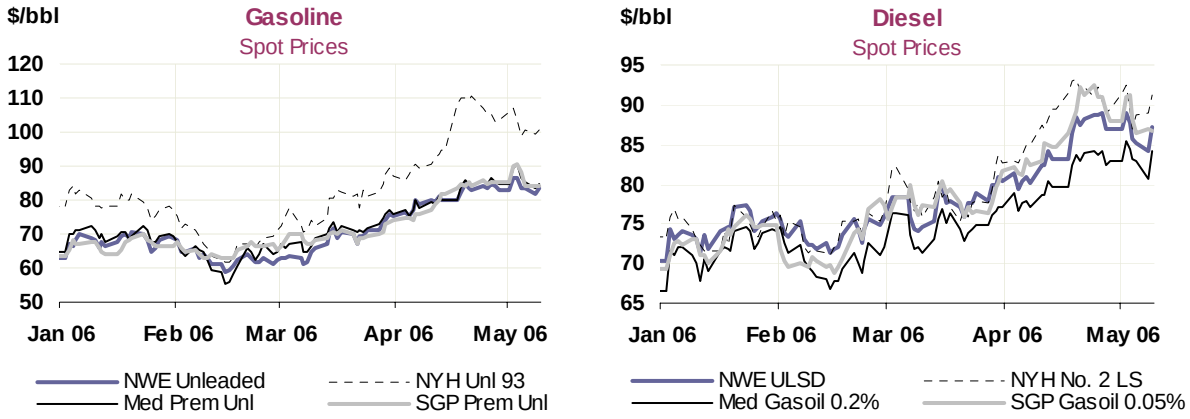
Delivered Crude Prices in February

The delivered cost of the average barrel of crude oil imported by IEA Member countries in February was $57.99, 40 cents higher than January's average and $16.65 higher than the corresponding price one year ago. The February rise in delivered crude prices to IEA Pacific countries averaged almost $3, more than offsetting slight decreases in IEA Europe and North America.

Spot Product Prices

Reduced refinery output in the US and Asia led to supply-driven surges in the price of light products. US gasoline prices were the main mover in product markets in April, leading other regional markets higher and prompting spot arbitrages flows. In light distillates, prices for gasoil were on an even keel between Singapore and New York Harbour, but jet fuel prices were strongest in the US. Fuel oil prices were also up, albeit rising on the back of crude prices. Crack spreads for fuel oil across markets deteriorated, indicating weaker incremental demand in the case of low-sulphur material or oversupply in the case of high sulphur grades.

In New York Harbour, barge prices for unleaded gasoline posted an average gain of $14.63/bbl in April, the Gulf Coast seeing slightly stronger performance on delays to post-refinery maintenance start-ups. Unleaded gasoline in New York Harbour reached $96.93/bbl on 21 April, pulling back slightly by end-month. US gasoline demand appeared to take a back seat to supply in shaping the surge in prices. Demand in February was revised down while preliminary figures for April deliveries of finished gasoline did not display growth. Gasoline availability was reduced as maintenance depressed refinery output and imports fell from the peaks reached in early March. This accelerated a draw in inventories that was already underway as tanks were turned over ahead of summer and MTBE-blended RFG material was being cleared out.



The self-contained US West Coast market saw an even stronger increase in gasoline prices due to unplanned refinery outages. In Los Angeles, unleaded gasoline hit $113.15/bbl on 18 April prompting spot arbitrage from Asian markets, notably of Korean cargoes. Aside from the US pull, Singapore prices were buoyed regionally by lower Chinese exports as well as demand emerging from unplanned refinery outages in Japan. European prices were lifted higher by increases in the US but differentials against New York Harbour widened, opening spot arbitrage trade. Front-month gasoline swaps in Northwest Europe moved into backwardation, encouraging product out of independent storage for transatlantic sales. Outside of gasoline component deliveries to the US, foreign demand from Nigeria, Mexico and the Middle East also supported European prices.

Distillate prices moved higher with futures but were lagging gains seen in gasoline. Price spreads pointed to strength in jet fuel and diesel, for which refinery supply is proportionately more impacted than heating oil during refinery maintenance. Diesel and jet held at a premium to the front month futures while gasoil prices were at parity or discounted. Heating oil demand was not only thin in view of high absolute prices but also seasonally weaker with the arrival of spring. Interest instead firmed for diesel for industrial use in the US and for private transport in Europe. In the US, in addition to lower refinery utilisation rates and product specification changes this year, diesel supply was constrained by yields maximised towards gasoline as cracks outperformed those for distillates. Diesel premiums widened against gasoil, reaching over $3.00/bbl in Northwest Europe and topping $6.00/bbl in New York Harbour and the US Gulf Coast in the second half of April. Jet prices were similarly strong, and values in Europe rose, pushing swap prices in Europe into backwardation.

Spot Product Prices

(monthly and weekly averages, $/bbl)

	Feb	Mar	Apr	Apr-Mar		Week Commencing:					Feb	Mar	Apr
				Change	%	03 Apr	10 Apr	17 Apr	24 Apr	01 May			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	63.78	69.46	82.60	13.15	18.9	78.97	81.64	84.64	85.38	86.44	3.66	7.37	12.26
Unleaded	62.71	68.34	81.20	12.86	18.8	77.63	80.27	83.25	83.87	84.92	2.59	6.25	10.85
Naphtha	57.88	58.16	65.20	7.04	12.1	61.05	64.55	67.43	68.10	68.73	-2.24	-3.93	-5.14
Jet/Kerosene	74.51	76.73	84.93	8.20	10.7	80.34	83.29	87.90	88.46	87.31	14.39	14.64	14.58
Gasoil .2%	71.12	74.78	81.88	7.10	9.5	78.07	80.38	84.61	84.72	83.85	11.00	12.69	11.54
LSFO 1%	48.90	47.18	49.67	2.49	5.3	47.75	48.44	50.98	51.52	49.80	-11.22	-14.92	-20.68
HSFO 3.5%	45.90	45.90	49.70	3.80	8.3	48.54	49.06	50.20	50.98	51.41	-14.22	-16.19	-20.65
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm *	61.18	69.42	80.50	11.08	16.0	76.19	78.50	83.43	84.05	86.40	4.13	11.31	15.55
Naphtha	56.03	57.31	64.34	7.03	12.3	60.24	63.81	66.73	66.96	67.66	-1.02	-0.80	-0.61
Jet Aviation fuel	73.88	76.11	83.75	7.64	10.0	78.98	81.69	87.11	87.49	86.55	16.83	18.00	18.80
Gasoil .2%	70.17	74.80	80.89	6.10	8.1	77.66	79.35	83.27	83.47	83.97	13.11	16.69	15.94
LSFO 1%	53.13	49.62	49.55	-0.07	-0.2	48.30	48.15	50.84	50.88	50.38	-3.93	-8.48	-15.40
HSFO 3.5%	44.38	45.14	48.25	3.11	6.9	46.87	48.11	49.13	49.03	49.35	-12.68	-12.97	-16.70
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	67.41	79.22	99.30	20.07	25.3	88.66	92.69	109.72	104.79	103.25	5.84	16.40	29.83
Unleaded	63.15	74.17	88.80	14.63	19.7	82.76	86.97	95.76	89.34	88.71	1.58	11.35	19.34
Jet/Kerosene	73.56	80.39	88.26	7.87	9.8	83.61	87.13	91.63	90.44	88.51	11.99	17.56	18.80
No. 2 (Heating Oil)	68.86	74.67	83.16	8.49	11.4	78.69	82.66	86.36	84.81	83.91	7.29	11.84	13.69
LSFO 1%	48.14	47.36	51.03	3.68	7.8	48.39	50.04	53.04	52.47	51.24	-13.43	-15.47	-18.43
No. 6 3%	46.49	46.61	48.77	2.16	4.6	46.93	47.79	49.76	50.42	50.67	-15.08	-16.21	-20.69
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	65.02	69.64	81.13	11.49	16.5	75.07	79.44	84.48	85.21	88.20	7.42	11.82	16.99
Naphtha	56.65	59.82	64.45	4.62	7.7	61.35	64.33	66.29	65.79	67.45	-0.96	2.01	0.30
Jet/Kerosene	74.96	75.66	84.77	9.11	12.0	79.31	82.58	87.92	88.81	88.11	17.35	17.84	20.62
Gasoil .5%	66.08	72.21	82.99	10.78	14.9	78.68	81.66	85.19	86.17	85.08	8.48	14.39	18.85
LSWR Cracked	52.08	52.43	58.08	5.64	10.8	56.00	57.84	59.59	58.83	59.13	-5.53	-5.38	-6.07
HSFO 180 CST	50.43	51.87	53.88	2.01	3.9	52.25	53.34	54.62	55.21	55.24	-7.17	-5.95	-10.26
HSFO 380 CST 4%	50.26	51.24	53.79	2.55	5.0	52.11	53.26	54.54	55.16	55.59	-7.35	-6.57	-10.35

* From January 2005 Premium Unleaded 50 ppm

Asia also saw a strong performance for distillates in April. Refinery maintenance reduced supply both in Asia and from the Middle East. In addition, spot availabilities in gasoil had fallen in March following exports to Africa. A tight gasoil market pushed swaps prices into backwardation in Singapore, the structure was in contrast to IPE and NYMEX futures contracts which held in contango. Jet fuel prices rose strongly, supported by Chinese jet fuel demand but also by reduced supplies from the Middle East for which Asia competes with Europe. Tighter supply conditions were further exacerbated by a strong US West Coast market, the latter pulling cargoes of Korean jet fuel and helping to lift jet's premium over gasoil by the end of April. Prices for jet fuel out of Singapore, Korea and the Arab Gulf all posted on average $12/bbl increase in April.

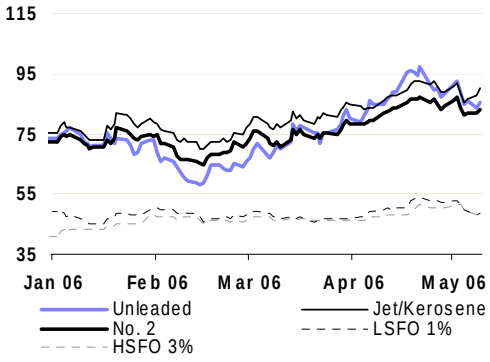
Fuel oil prices trended higher in April, the rise mostly driven by increases in crude prices. When viewed on a crack basis, both high (HSFO) and low (LSFO) sulphur fuel oil saw spreads relative to reference crudes deteriorate. In Singapore, LSWR cracks saw more modest declines relative to those for other grades of fuel oil. April Indonesian LSWR supplies were cleared early with power utilities rebuilding inventories ahead of summer. In Europe, exports of HSFO to Asia by VLCC and imports from the Baltics appeared to even out in April, and swaps prices held relatively flat for May-June delivery. Incremental demand for LSFO by utilities in Europe was absent on normalised Russian natural gas supplies, particularly in the Mediterranean, keeping prices on average unchanged and premiums weaker relative to HSFO. In Asia, Chinese buyers remained absent, leaving the bunker market to absorb ample HSFO supplies. Outright prices for fuel oil in Singapore, after strong gains in April, are likely to ease back. Western supplies and exports from India will pressure prompt prices and likely tip the swaps more into contango in May.

End-User Product Prices in April

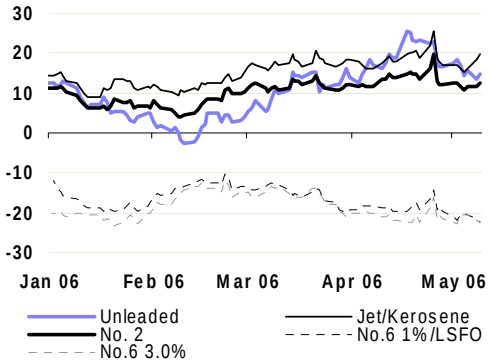
North American gasoline prices were the biggest movers in April for OECD consumers, rising by almost 20% in ex-tax dollar terms, to 64 and 62 cents per litre in Canada and US respectively. On the same basis, European gasoline prices rose between 12% and 18%. Consumer diesel prices rose by less: 9% in USA, 8% in Canada and 5-10% in OECD Europe.

Product Prices and Differentials to Benchmark Crude Oil Prices

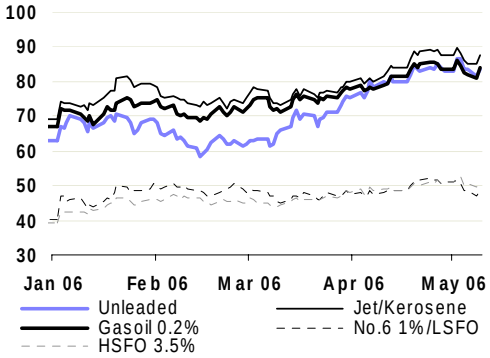
$/bbl **New York Harbour Spot Product Prices**
(Fob Barges)



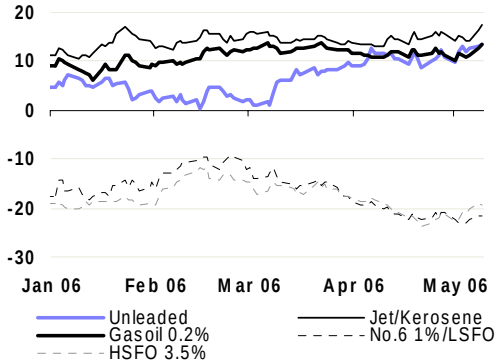
$/bbl **New York Harbour Product Spreads to**
WTI (Fob Barges)



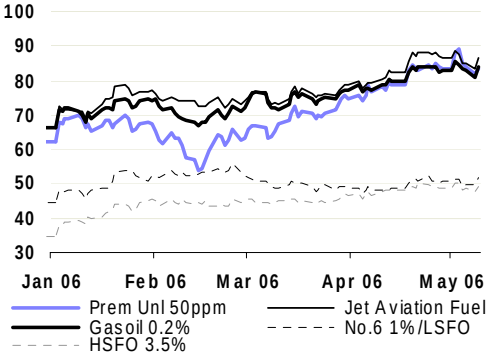
$/bbl **Northwest Europe Spot Product Prices**
(Fob Barges)



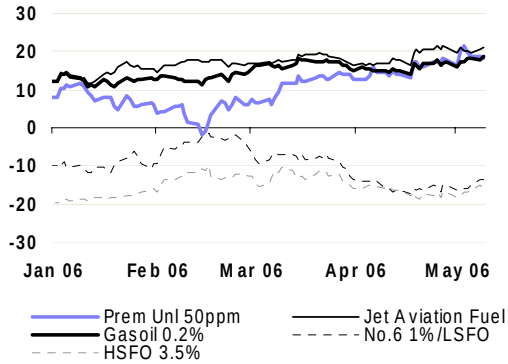
$/bbl **Northwest Europe Product Spreads to**
Brent (Fob Barges)



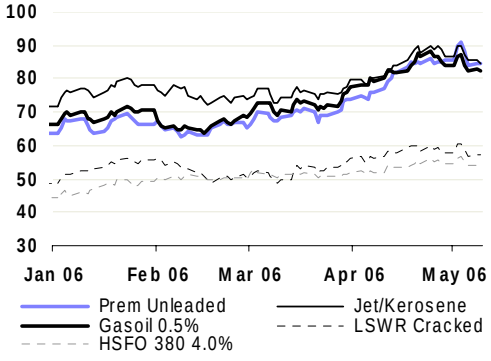
$/bbl **Mediterranean Spot Product Prices**
(Fob Cargoes)



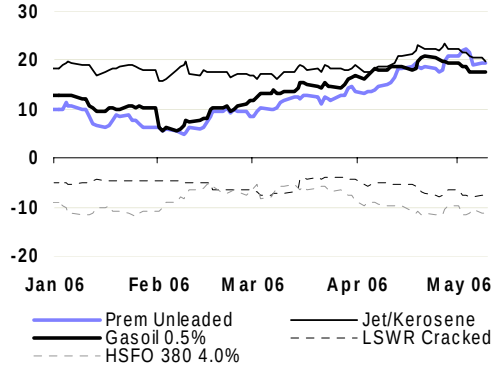
$/bbl **Mediterranean Product Spreads**
to Urals (Fob Cargoes)



$/bbl **Singapore Spot Product Prices**
(Fob)



$/bbl **Singapore Product Spreads to Dubai**
(Fob)

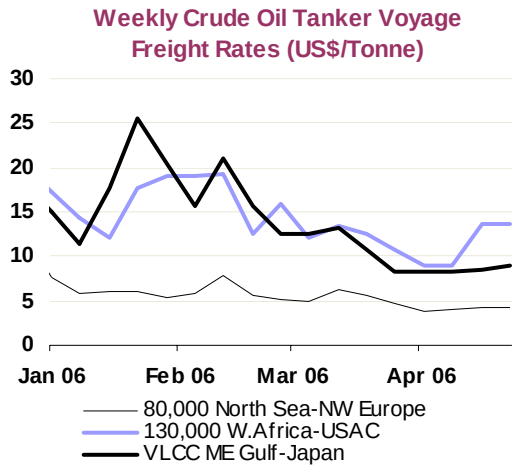


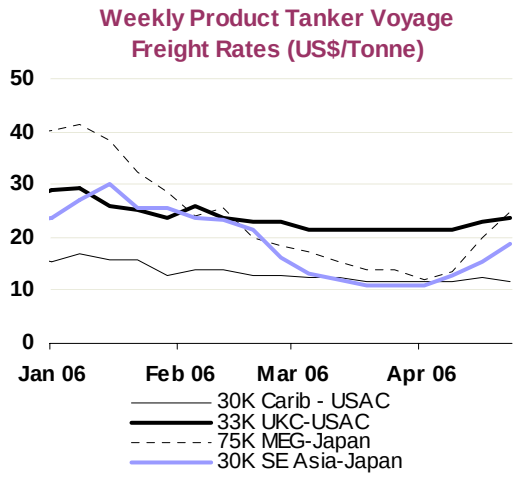
Freight

Refinery maintenance kept dirty freight rates at seasonal lows in April. At the start of the month, spot demand for vessels carrying Middle Eastern crude was depressed by lower crude requirements in Western markets. This followed from refinery turnarounds in the US and Europe and comfortable OECD crude stocks. The beginning of Asian scheduled turnarounds in April (due to rise to a peak in May) accelerated the decreasing trend for Arabian Gulf loadings, and consequently put further downward pressure on rates. Lower volumes of oil-in-transit increased vessel availability, keeping spot shipping costs for VLCCs trading out of the Arabian Gulf at ten-month lows. The rates remained weak despite the return of a number of Western refiners in the second half of the month. Lower rates on a seasonal basis this year come against a backdrop of a significant expansion of the tanker fleet in 2006.

Average VLCC rates from the Arabian Gulf to Japan fell to $7.60/tonne on 5 April - around the usual minimum point for this time of year. Rates remained stagnant at around $8/tonne until the end of the month before picking up as activity rose ahead of the Golden Week holidays in Japan. VLCC costs from the Arabian Gulf to US Gulf were also low, averaging the equivalent of $15/tonne, although slightly higher than Japanese rates for most of April in comparative Worldscale terms.

In the second half of April, the prospective return of some US and European refineries from maintenance re-ignited demand for crude-carrying vessels. This primarily impacted Atlantic basin crude shipping costs and had only a muted effect on rates from the Arabian Gulf. Cracking margins rose throughout April, supported by strong gasoline prices. This increased demand for light-sweet crude, lifting transportation costs of large cargoes of West African and North Sea crude in the Atlantic Basin. As a result, charter rates for Suezmax vessels sailing the West Africa to US and Europe route moved sharply higher in the second half of the month. VLCC spot fixture rates followed the same trend. West Africa to US Gulf costs increased from $10/tonne on 17 April to above $15/ tonne on 27 April. Rates for VLCCs trading east from West Africa stayed relatively flat around $17/tonne. Besides lower crude requirements due to refinery maintenance, Asian buyers were discouraged from spot shipments as Brent's higher premium over Dubai made the voyage less economical.





Returning US refinery operations also buoyed spot charter rates for Caribbean Aframax exports to the US Gulf. These rose steadily throughout April. Unplanned refinery outages and the resulting shipping delays lent support to Mediterranean Aframax rates in April. These moved from under $10/tonne on 10 April to nearly $13/tonne two weeks later.

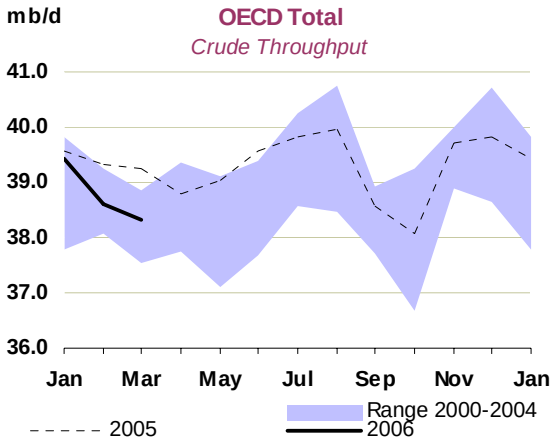
After almost four months in decline, tanker rates for product shipments from the Middle East to Japan rebounded from $16/tonne on 19 April to $30/tonne on 25 April. Other clean rates for Asian destinations also firmed as Middle Eastern export refineries started to return from maintenance while turnarounds in Asia gained pace, lifting product import requirements. US demand for clean product imports from Asia put a further squeeze on tonnage availability. The price strength on the West Coast primarily drew cargoes of Korean gasoline and jet fuel. At the same time, a wide transatlantic gasoline arbitrage supported clean freight rates to the US from Northwest Europe and the Mediterranean.

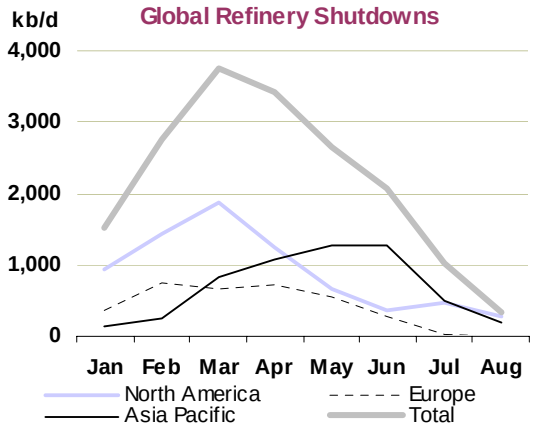
REFINERY ACTIVITY

Summary

- **Full cost refining margins** reached their highest level in April since last autumn's hurricane related record highs. Cracking and coking margins increased as high levels of refinery maintenance and unplanned outages tightened product markets, boosting light product cracks. Hydroskimming margins were on average weaker in Europe, as fuel oil prices lagged the gains in crude. However, Urals hydroskimming margins turned positive in NWE late in April and early May.

- **Refining margins** on the US West Coast saw the largest increase of the regions covered, following unplanned outages. West Coast ANS cracking margins averaged $12.73/bbl, up $5.50/bbl from March. US Gulf Coast cracking margins for Mars crude averaged $9.18/bbl in April, $1.49/bbl higher than in March. In Europe, gains were limited by lower fuel oil cracks, with average Brent cracking margins at $4.17/bbl, up $0.08/bbl from March. In Singapore, Dubai hydrocracking margins averaged $4.77/bbl, an increase of $1.95/bbl.





- **OECD crude throughputs** in March fell to 38.3 mb/d, their lowest level since the hurricane related disruption of last autumn and one of the lowest throughputs in the last three years. The relatively low level of refinery utilisation in March is due to the seasonal peak in OECD refinery maintenance and refineries offline following last year's US hurricane season. Runs were 271 kb/d below February's level which has been revised down by 256 kb/d to 38.6 mb/d. The year-on-year shortfall on crude throughputs widened to 917 kb/d from 733 kb/d in February.

- **OECD refinery yield data** suggest that the seasonal first quarter low in OECD gasoline production was reached in February. Similarly, the seasonal peak in Pacific kerosene production would also appear to have been reached. Distillate yields continue to increase, rebounding from January's low level as refiners seek to capture the stronger diesel and kerosene cracks.

Refining Margins

OECD North America

US refining margins benefited from stronger light product cracks, with gains in gasoline outstripping those for middle distillates. The high levels of offline capacity kept product markets tight for most of the month. This was particularly evident on the Gulf Coast where heavy maintenance and delays to the restart of refineries after unplanned outages kept product markets tight. Refinery throughputs, increased in early May, as some refineries exited maintenance raising the prospect of some easing of product market tightness in the coming weeks. However, margins remained at healthy levels in early May, albeit below April averages on the Gulf Coast and higher than the April average on the West Coast.

Cracking margins on domestic light sweet grades outperformed sour grades during April. Demand for sour crude from complex refineries exiting maintenance increased, pushing up medium sour crude

prices. In addition, the lower fuel oil yield on light sweet crudes such as LLS, compared to the medium sour grades, boosted the light sweet crude's net product worth. Gasoline cracks increased by around $8-9/bbl, while distillate cracks increased by about $2/bbl. Fuel oil cracks weakened as lower gas prices impacted utility demand. West Coast margins were once again the strongest of those covered in this Report on a comparable basis. Cracking margins averaged around $12/bbl across the sour crude grades considered in this Report. In contrast coking margins on Kern averaged $31.71/bbl, an increase of $9.89/bbl from March.

Selected Refining Margins in Major Refining Centres
($/DBI)

		Monthly Average			Change	Week Ending:				
		Feb 06	Mar 06	Apr 06	Apr 06-Mar 06	07 Apr	14 Apr	21 Apr	28 Apr	05 May
NW Europe	Brent (Cracking)	2.45	4.09	4.17	0.08	4.15	4.27	3.23	4.76	4.89
	Urals (Cracking)	4.34	6.94	7.86	0.91	7.09	7.61	7.37	9.33	9.29
	Brent (Hydroskimming)	-0.82	-1.00	-3.06	-2.06	-2.73	-2.98	-4.14	-2.75	-2.82
	Urals (Hydroskimming)	-0.86	0.09	-0.99	-1.09	-1.20	-1.27	-1.84	0.18	0.14
Mediterranean	Es Sider (Cracking)	3.37	5.06	5.34	0.28	4.61	4.52	5.65	7.42	7.04
	Urals (Cracking)	3.93	6.19	6.61	0.43	5.89	5.72	6.98	8.47	8.41
	Es Sider (Hydroskimming)	0.52	-0.18	-2.35	-2.17	-2.51	-2.99	-2.32	-0.65	-1.15
	Urals (Hydroskimming)	-1.43	-0.88	-2.32	-1.44	-2.32	-3.10	-2.41	-1.02	-1.02
US Gulf Coast	Brent (Cracking)	-2.72	3.60	7.15	3.55	8.60	9.43	7.02	3.06	3.70
	LLS (Cracking)	0.55	7.06	11.52	4.46	11.88	12.63	11.47	7.53	8.10
	Mars (Cracking)	2.92	7.69	9.18	1.49	10.31	9.62	8.49	6.19	6.91
	Mars (Coking)	7.13	13.97	17.37	3.41	18.12	18.23	17.04	13.81	14.62
	Maya (Coking)	9.45	15.95	22.13	6.18	22.72	23.53	22.28	17.78	19.24
US West Coast	ANS (Cracking)	3.04	7.22	12.73	5.50	9.61	10.65	11.59	16.18	16.02
	Kern (Cracking)	6.67	10.34	12.12	1.77	10.44	11.23	12.09	16.09	15.03
	Oman (Cracking)	-0.43	5.34	12.18	6.85	9.48	11.06	13.56	16.96	15.47
	Kern (Coking)	12.58	21.82	31.71	9.89	26.34	31.10	32.80	37.95	37.75
Singapore	Dubai (Hydroskimming)	-2.60	-0.24	0.10	0.34	-0.15	0.54	0.50	0.91	-0.34
	Tapis (Hydroskimming)	-7.87	-5.06	-4.24	0.82	-4.91	-3.91	-3.97	-3.28	-4.51
	Dubai (Hydrocracking)	-0.02	2.82	4.77	1.95	3.96	5.26	5.65	5.99	4.50
	Tapis (Hydrocracking)	-5.99	-2.96	-1.49	1.47	-2.59	-1.20	-0.81	-0.11	-1.42
China	Cabinda (Hydroskimming)	-4.42	-4.76	-5.14	-0.38	-4.49	-4.68	-6.93	-5.58	-5.68
	Daqing (Hydroskimming)	-5.53	-4.96	-5.04	-0.08	-4.43	-4.43	-5.46	-6.00	-6.77
	Dubai (Hydroskimming)	-3.24	-0.79	-0.20	0.59	-0.43	0.25	0.21	0.57	-0.68
	Daqing (Hydrocracking)	-1.56	-1.16	-0.27	0.89	-0.44	0.38	-0.15	-0.38	-1.22
	Dubai (Hydrocracking)	-0.62	2.28	4.53	2.25	3.76	5.02	5.44	5.67	4.17

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.

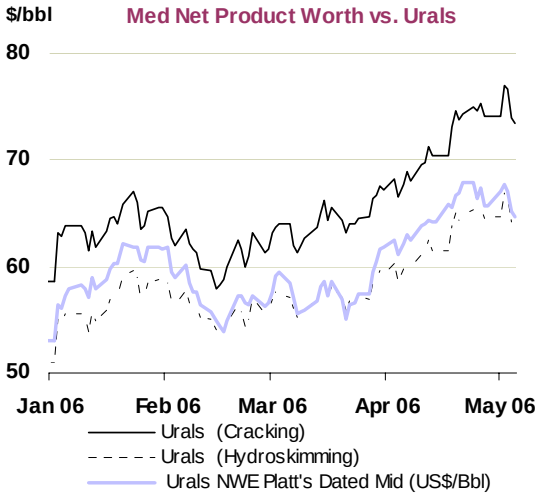
OECD Europe

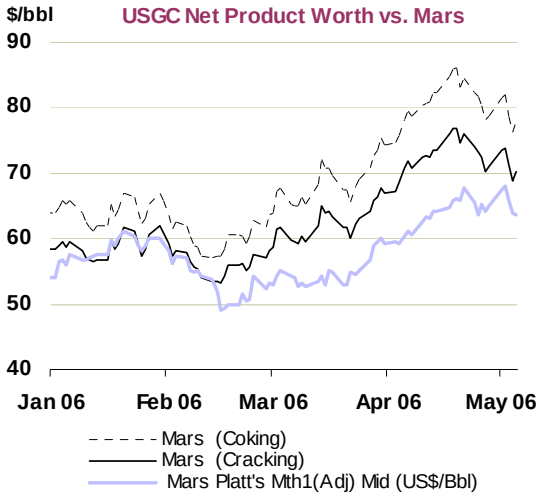
European margins benefited from stronger gasoline cracks and the high level of Mediterranean maintenance activity. Urals cracking margins remained the highest of those considered in this Report, averaging $7.86/bbl in Northwest Europe and $6.61/bbl in the Mediterranean. However, weaker average fuel oil cracks reduced hydroskimming profitability, with sweet crude margins falling around $2/bbl and Urals dropping by $1-1.50/bbl. Low-sulphur fuel oil cracks fell by $6-7/bbl, as Mediterranean utility demand switched back to natural gas. High-sulphur fuel oil cracks were also weaker in April, as stocks recovered from previously low levels in ARA. Unplanned refinery outages in Italy lifted Mediterranean margins late in the month and boosted distillate cracks, which had been relatively weak compared to other regions. Weakness in Urals crude prices in late April and early May, on the back of increased supplies in May, allowed Urals hydroskimming margins to briefly turn positive.

Asia

Asian margins reflected the trends seen in the US and Europe. Gains for hydrocracking margins outpaced hydroskimming for both light-sweet and medium-sour crudes. For Dubai crude hydrocracking margins averaged $4.77/bbl in Singapore, an increase of $1.95/bbl from March and

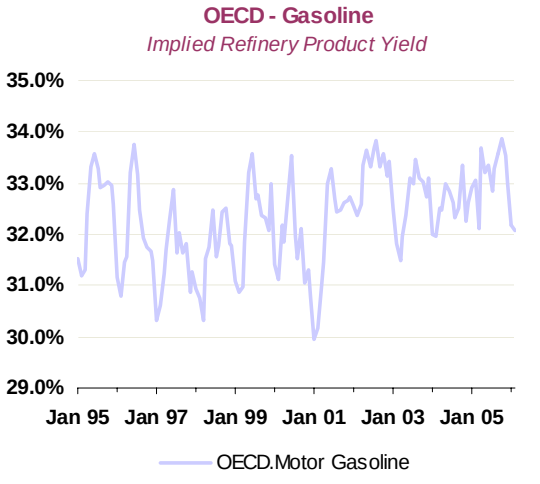
hydroskimming margins were positive for the first time in seven months. Hydroskimming margins remained negative on regional sweet crudes such as Tapis in Singapore and Daqing in China due to very poor low-sulphur waxy residue cracks. Tight regional product markets supported gasoline and distillate cracks as problems with the restart of Middle East refineries from maintenance restricted imports to Asia, and exports from Asia to Africa and the US cut stocks and boosted product demand. Against this backdrop unplanned shutdowns at two Japanese refineries further tightened light product markets mid-month.

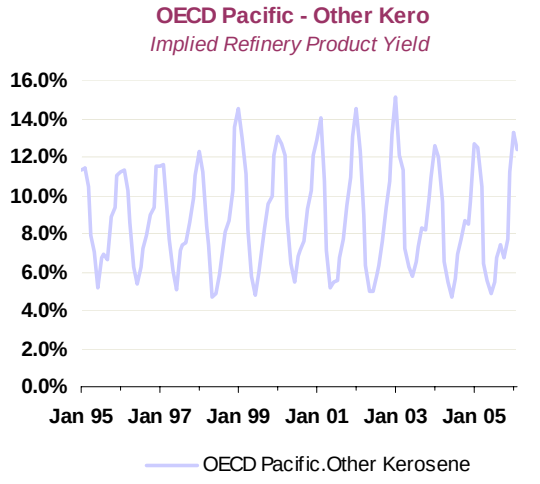




OECD Refinery Yields

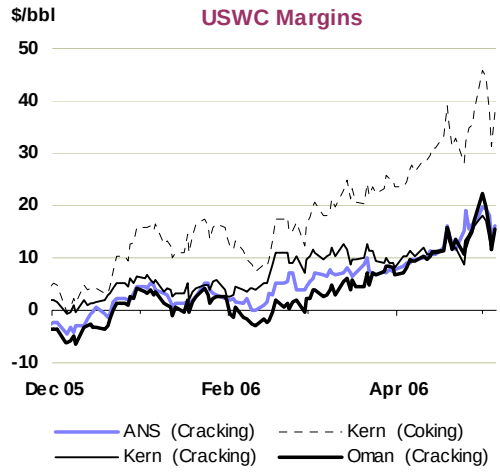
OECD yield data for February suggests that the seasonal low point in gasoline yields which is typically seen in the first quarter has been reached. Gasoline yields have retreated from the fourth quarter high following the hurricane-related disruption in the US in 2005. In February they were back in line with the average low-point for the last 3 years. During February gasoline cracks were weak, both in absolute terms and relative to distillate crack values and refiners were likely to have a maximised distillate yields. The subsequent recovery in gasoline cracks during March and April should be reflected in rising gasoline yields over the course of March and the second quarter.

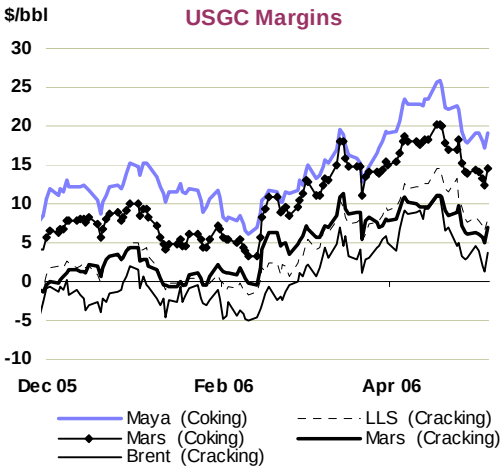


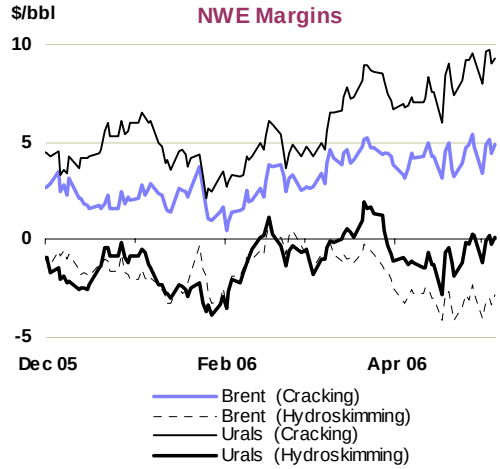


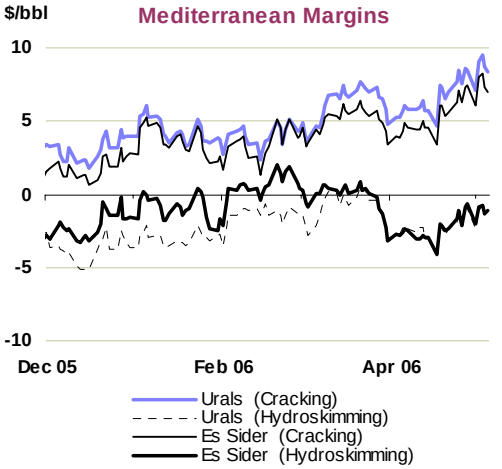
Similarly the seasonal peak in kerosene production, centred on the Pacific region would appear to have been reached in January. Pacific jet/kerosene yields fell to 17.4% in February from 18.1% in January in line with prior-year levels. The tighter sulphur specifications for US on-road diesel fuel may put further pressure on OECD kerosene yields which remain at the bottom of their five-year range. OECD distillate yields continue to trend above their five-year average, as US yields rebounded from January's low level to maintain the rising share of light products.

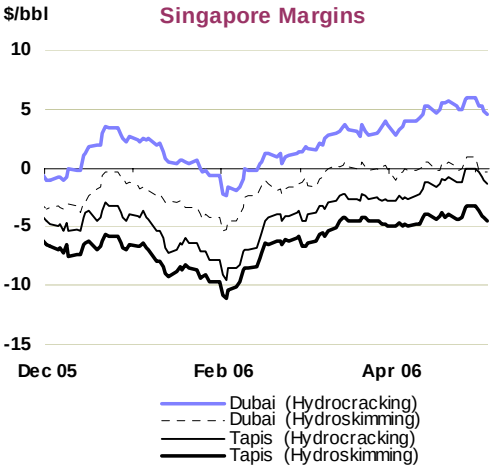
Regional Full-Cost Refining Margins

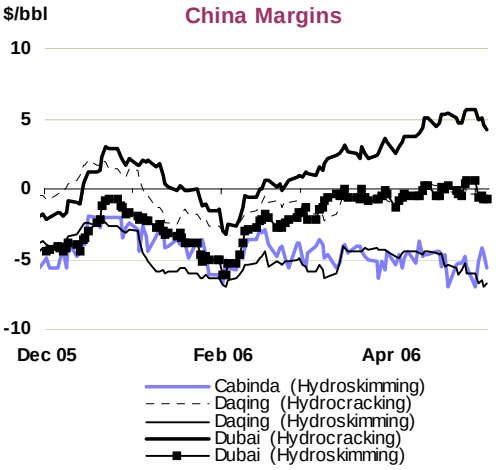












Refinery Throughput

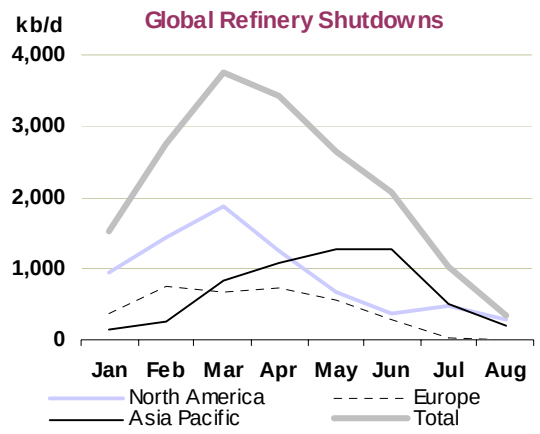
OECD refinery throughput averaged 38.33 mb/d in March. This represents one of the lowest crude throughput levels in the last three years for the OECD and 1.51 mb/d below December's post hurricane high of 39.84 mb/d. High levels of refinery maintenance in the US and Europe are the primary cause of these low crude runs. This year's high level of maintenance activity is essentially a hangover from last year's hurricanes, coupled with the extra work needed to prepare for the tighter product sulphur specifications in the US. North American throughputs were 17.57 mb/d in March, 0.75 mb/d below March 2005 level. European crude throughputs were 13.20 mb/d, the lowest level since October 2002. OECD Pacific throughputs are estimated to have averaged 7.56 mb/d in March, 146 kb/d above March 2005 levels. As a result, the average OECD capacity utilisation rate is estimated to be 85.5% for the month, 2.3% below March 2005.

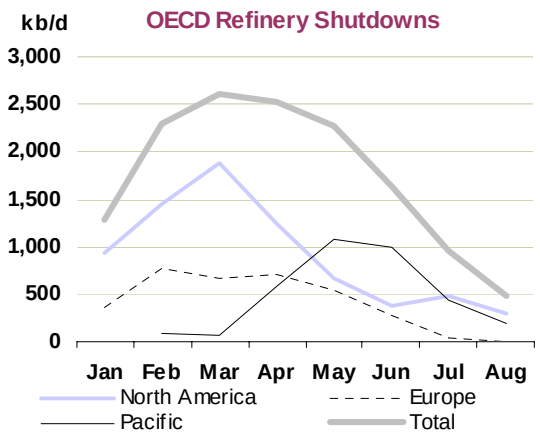
Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*	*Mar 05*	Utilisation rate[2]	
	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	mb/d	%	Mar 06	Mar 05
OECD North America										
US[3]	13.65	15.02	15.03	14.81	14.58	14.57	-0.57	-3.8	85.04	89.43
Canada	1.82	1.83	1.77	1.92	1.92	1.81	-0.05	-2.8	89.58	92.13
Mexico	1.18	1.18	1.31	1.33	1.23	1.19	-0.13	-9.6	70.96	71.96
Total	16.64	18.03	18.11	18.06	17.74	17.57	-0.75	-4.1	84.34	88.81
OECD Europe										
France	1.57	1.86	1.82	1.76	1.54	1.58	-0.25	-13.7	80.04	94.07
Germany	2.37	2.41	2.41	2.28	2.31	2.06	-0.29	-12.5	84.85	95.99
Italy	2.05	1.98	1.89	1.86	1.88	1.83	0.12	6.7	78.66	73.80
Netherlands	1.02	1.09	1.05	0.91	1.04	1.00	0.01	1.1	81.50	80.24
Spain	1.29	1.24	1.20	1.23	1.21	1.24	0.15	13.8	97.63	85.78
UK	1.71	1.64	1.68	1.59	1.57	1.44	-0.20	-12.0	76.71	89.59
Other OECD Europe	4.24	4.13	4.09	4.09	3.94	4.05	0.15	3.9	83.86	83.87
Total	14.26	14.35	14.15	13.71	13.48	13.20	-0.31	-2.3	82.85	86.08
OECD Pacific										
Japan	4.08	4.14	4.31	4.40	4.27	4.45	0.21	5.0	95.28	90.03
Korea	2.39	2.52	2.54	2.53	2.44	2.41	-0.04	-1.8	93.62	95.33
Other OECD Pacific	0.69	0.69	0.73	0.72	0.67	0.70	-0.02	-3.1	87.08	84.35
Total	7.16	7.34	7.58	7.65	7.39	7.56	0.15	2.0	93.93	91.11
OECD Total	38.06	39.72	39.84	39.42	38.60	38.33	-0.92	-2.3	85.53	88.27

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

This Report's estimate for offline capacity in OECD refineries is revised up following unplanned outages in Japan, Italy and the US and the slower than expected return of US refineries offline following last year's US hurricanes. Though we continue to estimate OECD offline capacity to have peaked in March at 2.6 mb/d, the recovery in runs through April and May is now expected to be much shallower. Within this estimate the delays in restarting BP Texas City, ConocoPhillips Alliance and the Murphy Meraux refineries all contributed to higher US estimates for April and the second quarter in general.





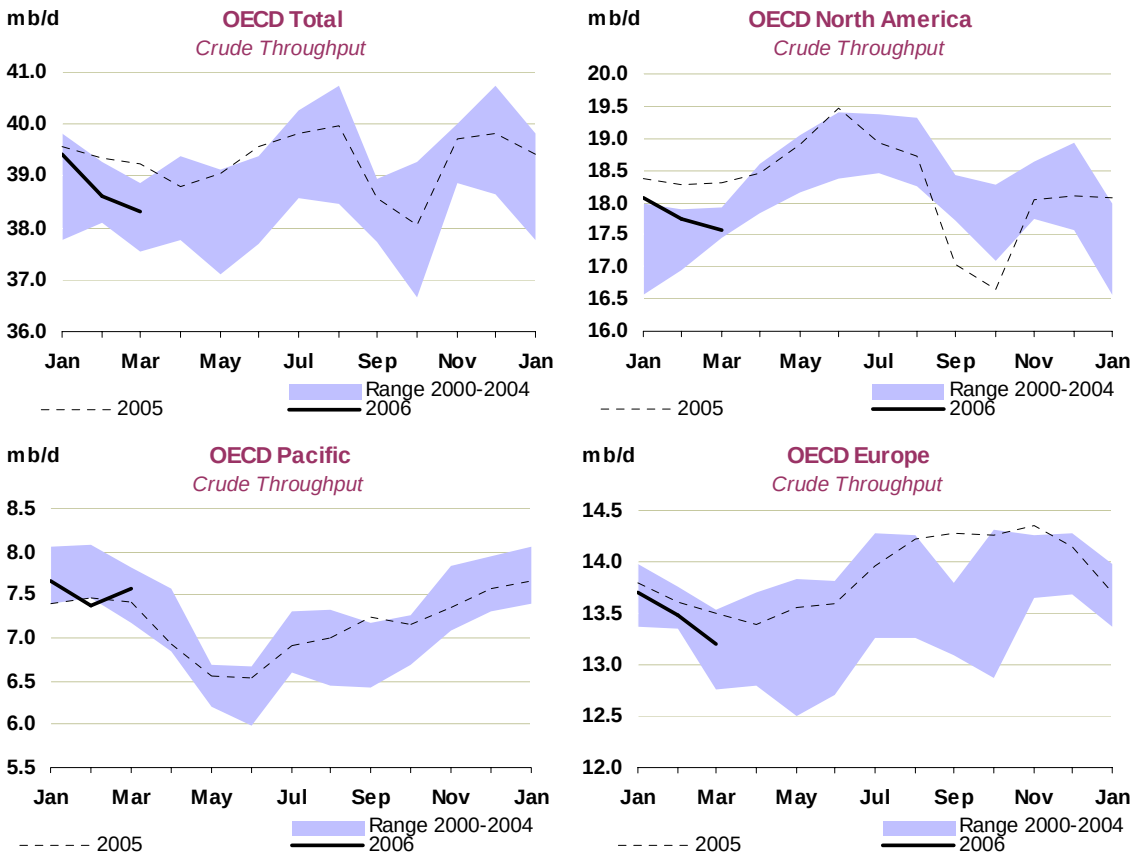
The increase in offline European capacity is attributable to the inclusion of previously unreported maintenance work, leading to a stable level of around 700 kb/d from February through to April. OECD Pacific estimates are broadly unchanged from last month with the seasonal peak still expected in May, at just under 1.1 mb/d while June's level is expected to be just under 1 mb/d as Japanese turnarounds decline, but Korean maintenance reaches its peak.

This Report's estimate of global offline capacity has been increased to reflect the new OECD estimates and changes to refinery maintenance plans in Asia, the FSU and the Middle East. Global offline refinery capacity is now estimated to have peaked in March at a revised 3.8 mb/d. However, the recovery of offline capacity now becomes more muted over the course of April and it is currently estimated that late May is likely to see the largest increase in refinery activity, centred in the Atlantic basin. Delays to the full restart of Middle East and Asian refinery capacity has increased average second quarter offline capacity to 2.7 mb/d from 2.3 mb/d assumed in last month's report.

OECD North America

Provisional data for March suggest North American crude throughputs were 17.57 mb/d. This is below February's 17.74 mb/d level, which has been revised up by 230 kb/d from last month, with upward revisions in both the US and Canada. March US throughputs averaged 14.57 mb/d, in line with the revised February average, but 574 kb/d below the March 2005 level. Average US capacity utilisation was just 85.04%, a result of the high level of refinery maintenance and unplanned shutdowns. Adjusting for the offline capacity suggests refineries ran at 95.5% of available capacity, which is above the comparable figure for March 2005 of 94.4%. Weekly data point to a recovery in crude throughputs to 15.32 mb/d by early May. However, the delays to some refinery restarts suggest that throughputs are more likely to reach 16 mb/d in June rather than in May, as suggested last month.

Canadian throughputs are estimated to have averaged 1.81 mb/d in March, 117 kb/d below February's revised estimate of 1.92 mb/d and 51 kb/d below March 2005. Reported planned maintenance work at PetroCanada's refineries in Alberta and Quebec is likely to depress throughputs during March, April and May with additional work at Valero's Quebec refinery also occurring in May. Mexican throughputs also declined marginally in March from February to 1.19 mb/d, some 127 kb/d below March 2005 levels.



OECD Europe

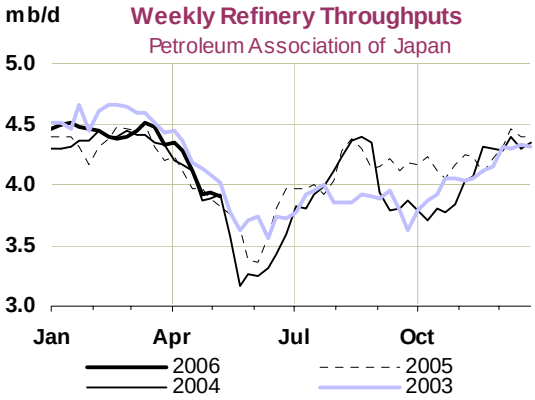
European crude throughputs provisionally averaged 13.20 mb/d in March. This is 287 kb/d below the reduced February estimate of 13.48 mb/d. Lower month-on-month runs in Germany (246 kb/d) and the UK (127 kb/d), account for the March decline. Downward revisions from Turkey, Italy, France and the UK totalled some 286 kb/d and account for the majority of February's revision. Crude throughputs were 0.31 mb/d below March 2005, due to maintenance and unplanned shutdowns. European crude throughputs are likely to remain subdued in April and May with the continued high level of maintenance, centred on the Mediterranean, and problems at ERG's Priolo refinery, which is expected to shut down until late May.

OECD Pacific

OECD Pacific crude throughputs are provisionally estimated at 7.56 mb/d for March. This suggests an increase of 178 kb/d from February's reduced estimate of 7.39 mb/d and some 146 kb/d above March 2005 throughputs. However, the increase is centred on higher runs in Japan where, in recent months, initial estimates have subsequently been revised down by 150-200 kb/d. Japanese crude throughputs are estimated at 4.45 mb/d in March, an increase of 179 kb/d from February's reduced estimate of 4.27 mb/d.

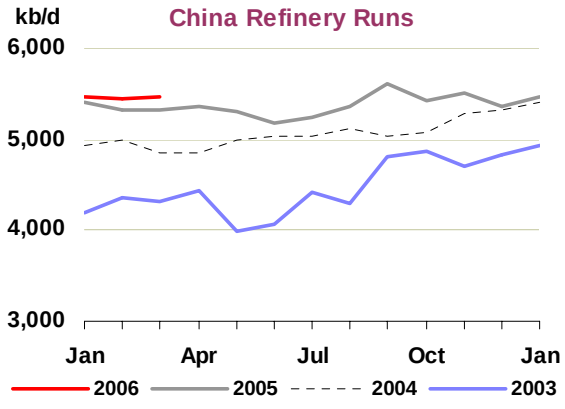
Weekly data indicates April throughputs started to decline with the onset of the seasonal maintenance programme and reports of two refinery fires. Weekly data indicates that crude runs had fallen to 3.9 mb/d in early May.

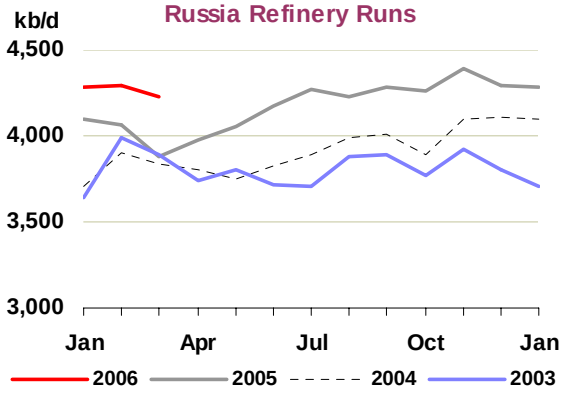
This Report expects Japanese offline capacity to build to almost 1 mb/d in May, over 20% of capacity, suggesting crude runs will track the seasonal pattern of a low point in May at just above 3 mb/d. Korean throughputs were broadly stable in March compared to prior month and year. Maintenance activity in Korea will peak later than Japan with 11% of Korean distillation capacity offline in June.



Non-OECD Throughputs

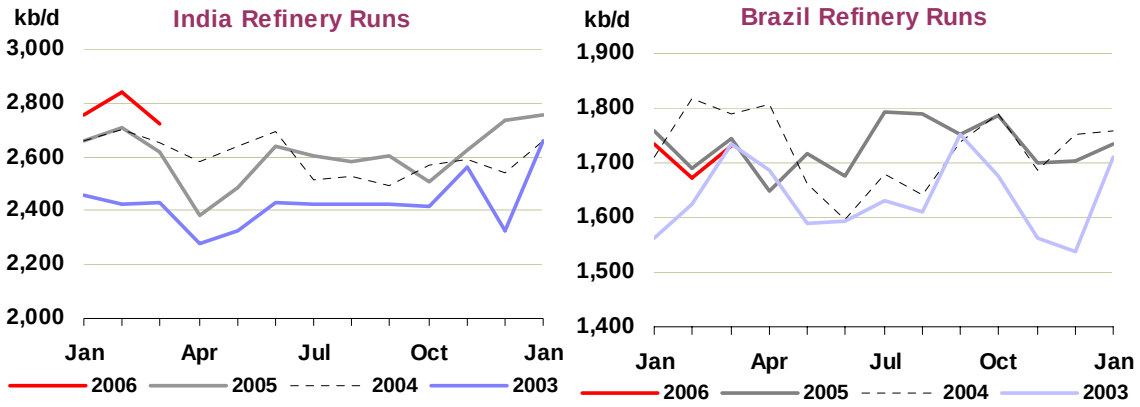
Chinese crude throughputs as reported for the two main domestic refiners were 5.5 mb/d in March, slightly ahead of February's 5.4 mb/d. Overall, crude runs are reported to have slipped to just under 6 mb/d in March from 6.2 mb/d in February. The reported startup of a 200 kb/d crude unit at Petrochina's Dalian refinery should help offset lower runs due to maintenance elsewhere which we expect to have peaked in April. The commissioning of a new 160 kb/d crude unit at Sinopec's Guangzhou plants is not expected to result in higher crude runs until secondary units are brought on stream in the second half of the year, allowing the existing unit to undergo maintenance.





Russian throughputs fell in March to 4.2 mb/d from 4.3 mb/d in February as reports suggest some maintenance work was carried out on crude units, in line with the seasonal pattern from previous years. Despite this decline in runs, reports indicate higher exports of fuel oil in March, partly offset

by lower gasoil exports, suggesting a drawdown in stocks. The month-on-month decline in runs is less severe than in 2005, temporarily lifting the year–on-year increase in throughputs to around 350 kb/d from a more typical level of around 200 kb/d.



Indian refinery throughputs are estimated to have dipped in March to 2.7 mb/d as some refineries undertook maintenance work. Turnaround activity is expected to have peaked in April at around 200 kb/d. Brazilian March crude throughputs are expected to have rebounded slightly to 1.73 mb/d from February's level of 1.67 mb/d, tracking prior year levels.

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	25.4	25.4	25.1	25.4	25.9	26.1	25.6
Europe	15.3	15.4	15.7	15.2	15.6	16.0	15.6	15.6	15.3	15.7	15.7	15.6	15.8	15.2	15.6	15.8	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.1	8.1	8.8	8.6	9.3	8.1	8.2	9.0	8.7
Total OECD	48.0	48.6	50.2	48.1	49.2	50.5	49.5	50.6	48.7	49.3	50.0	49.6	50.2	48.7	49.7	50.9	49.9
NON-OECD DEMAND																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.8	3.8	3.7	3.8	3.9	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	0.8	0.7	0.8	0.8
China	5.0	5.6	6.3	6.5	6.3	6.6	6.4	6.5	6.4	6.6	6.8	6.6	6.7	6.8	7.0	7.2	6.9
Other Asia	8.0	8.1	8.5	8.7	8.4	8.9	8.6	8.9	8.9	8.6	8.7	8.8	8.9	8.9	8.7	8.9	8.8
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	5.3	5.4	5.7	5.7	6.0	5.8	5.8	6.1	6.0	6.3	6.1	6.1	6.4	6.3	6.6	6.5	6.4
Africa	2.7	2.7	2.8	2.9	2.8	2.9	2.8	2.9	3.0	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	29.9	30.7	32.4	33.0	33.0	33.8	33.1	33.9	33.7	34.0	34.2	34.0	34.6	34.6	34.9	35.5	34.9
Total Demand[1]	77.8	79.4	82.6	81.2	82.1	84.3	82.5	84.5	82.4	83.3	84.2	83.6	84.9	83.3	84.7	86.5	84.8
OECD SUPPLY																	
North America	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.6	13.7	13.6	14.1	14.2	14.3	14.3	14.6	14.3
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.7	5.4	5.5	5.6	5.6	5.3	5.2	5.5	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	0.5	0.5	0.6	0.6	0.5
Total OECD	21.9	21.6	21.8	21.5	20.8	21.0	21.3	20.9	20.9	19.8	19.7	20.3	20.2	20.1	20.1	20.6	20.3
NON-OECD SUPPLY																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.5	11.5	11.7	11.9	11.6	11.7	12.0	12.1	12.3	12.0
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	3.7	3.7	3.7	3.7	3.7
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	4.0	4.1	4.1	4.1	4.1	4.2	4.3	4.3	4.3	4.3	4.3	4.4	4.5	4.7	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	1.8	1.8	1.8
Africa	3.0	3.0	3.3	3.3	3.4	3.5	3.4	3.5	3.5	3.8	3.9	3.7	3.9	4.1	4.2	4.4	4.1
Total Non-OECD	24.5	25.7	26.5	26.8	27.3	27.5	27.0	27.5	27.7	28.1	28.4	27.9	28.4	28.9	29.4	29.8	29.1
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	50.4	49.7	50.0	50.1	50.5	50.9	51.3	52.3	51.3
OPEC																	
Crude[4]	25.4	27.1	28.3	28.5	29.5	29.9	29.1	29.4	29.9	30.1	30.0	29.8	29.8				
NGLs	3.4	3.5	3.8	3.8	3.9	3.9	3.8	4.0	4.1	4.1	4.2	4.1	4.2	4.3	4.4	4.4	4.4
Total OPEC	28.8	30.6	32.2	32.3	33.4	33.8	32.9	33.4	33.9	34.2	34.2	33.9	34.0				
Total Supply[5]	76.9	79.7	82.2	82.4	83.2	84.1	83.0	83.7	84.4	83.9	84.2	84.0	84.6				
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	-0.4	0.1	-0.6	0.9	0.4	-0.3	0.1	0.0	0.9	0.2	-0.6	0.1	0.3				
Government	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.3	0.0	-0.1	0.1	0.0				
Total	-0.3	0.3	-0.4	0.9	0.5	-0.2	0.2	0.1	1.2	0.2	-0.7	0.2	0.3				
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	0.1	-0.1	0.1				
Miscellaneous to balance[6]	-0.7	-0.1	0.3	0.5	0.4	-0.2	0.2	-0.5	0.6	0.5	0.6	0.3	-0.7				
Total Stock Ch. & Misc	-0.9	0.3	-0.3	1.2	1.1	-0.1	0.5	-0.8	2.0	0.6	0.0	0.5	-0.3				
Memo items:																	
Call on OPEC crude + Stock ch.[7]	26.3	26.8	28.7	27.2	28.4	30.1	28.6	30.2	27.9	29.5	30.0	29.4	30.1	28.1	28.9	29.7	29.2
Total Demand ex. FSU	74.3	75.8	79.1	77.5	78.3	80.3	78.8	80.7	78.7	79.5	80.3	79.8	81.0	79.7	80.8	82.5	81.0
Total demand exc. FSU (% ch)[8]	1.2	1.9	3.7	5.0	3.7	3.5	4.0	2.1	1.6	1.5	0.0	1.3	0.4	1.2	1.7	2.7	1.5

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 As of the March 2006 OMR, Venezuelan Orinoco heavy crude production is included within Venezuelan crude estimates. Orimulsion fuel remains within the OPEC NGL & non-conventional 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	-	-	-	-	-	-	-	-	-	-	-	-	-0.2	-0.2	-	-	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.3	-0.2	-	-0.1	-0.1
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.2	-0.1	-	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.2	-0.1	-	-0.1
Total Demand	-	-	-	-	-	-	-	-	-	-	-	-	-0.4	-0.4	-0.1	-	-0.2
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1	0.1	0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	0.1	0.1
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-	-	-	0.1				
NGLs	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Total OPEC	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-				
Total Supply	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	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	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-	-0.1					
Total Stock Ch. & Misc	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-	-0.1	0.4				
Memo items:																	
Call on OPEC crude + Stock ch.	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-	0.1	-0.3	-0.3	-	-	-0.2
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-	-	-	-	-0.2	-0.2	-	-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

	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	25.67	25.34	25.53	25.30	25.47	25.40	25.42	25.13	25.40	25.94	26.11	25.65
Europe	15.43	15.66	15.20	15.60	16.02	15.62	15.56	15.31	15.71	15.73	15.58	15.77	15.23	15.56	15.83	15.60
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.10	8.12	8.83	8.63	9.34	8.11	8.22	9.00	8.67
Total OECD	48.65	50.17	48.13	49.17	50.47	49.49	50.58	48.71	49.30	49.96	49.63	50.24	48.73	49.72	50.94	49.91
FSU	3.59	3.51	3.72	3.79	4.00	3.76	3.82	3.71	3.79	3.89	3.80	3.87	3.63	3.82	4.03	3.84
Europe	0.69	0.78	0.73	0.68	0.74	0.73	0.80	0.75	0.69	0.75	0.75	0.83	0.76	0.70	0.76	0.76
China	5.58	6.28	6.53	6.32	6.60	6.43	6.55	6.41	6.63	6.76	6.59	6.71	6.84	6.98	7.21	6.93
Other Asia	8.06	8.54	8.65	8.43	8.87	8.62	8.91	8.85	8.64	8.72	8.78	8.87	8.86	8.68	8.94	8.84
Latin America	4.67	4.73	4.89	4.98	4.91	4.87	4.88	5.03	5.09	5.01	5.00	4.99	5.14	5.21	5.13	5.12
Middle East	5.41	5.73	5.67	6.01	5.84	5.81	6.05	5.99	6.32	6.13	6.13	6.37	6.32	6.64	6.46	6.45
Africa	2.73	2.83	2.85	2.76	2.86	2.82	2.93	2.95	2.83	2.94	2.91	3.00	3.03	2.90	3.02	2.99
Total Non-OECD	30.72	32.40	33.04	32.96	33.82	33.06	33.93	33.70	33.99	34.20	33.96	34.64	34.56	34.94	35.55	34.92
World	79.36	82.57	81.17	82.13	84.28	82.54	84.51	82.40	83.29	84.16	83.59	84.88	83.29	84.66	86.49	84.83
of which:																
US50	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.80*	*20.66*	*20.86*	*20.75*	*20.77*	*20.52*	*20.75*	*21.19*	*21.30*	*20.94*
Euro4	*8.30*	*8.39*	*8.10*	*8.36*	*8.48*	*8.34*	*8.19*	*8.06*	*8.37*	*8.24*	*8.22*	*8.33*	*7.99*	*8.18*	*8.25*	*8.19*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.99*	*5.08*	*5.51*	*5.41*	*6.02*	*4.96*	*5.11*	*5.60*	*5.42*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.00*	*2.22*	*2.17*	*2.27*	*2.07*	*2.04*	*2.30*	*2.17*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.04*	*2.07*	*2.05*	*2.06*	*2.11*	*2.11*	*2.13*	*2.10*
Canada	*2.21*	*2.30*	*2.20*	*2.31*	*2.35*	*2.29*	*2.35*	*2.23*	*2.23*	*2.22*	*2.25*	*2.18*	*2.21*	*2.29*	*2.32*	*2.25*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.11*	*2.17*	*2.24*	*2.20*	*2.18*	*2.17*	*2.21*	*2.29*	*2.25*	*2.23*
India	*2.48*	*2.64*	*2.64*	*2.44*	*2.61*	*2.58*	*2.74*	*2.60*	*2.48*	*2.57*	*2.59*	*2.76*	*2.66*	*2.52*	*2.64*	*2.65*
Annual Change (% per annum)																
North America	1.7	3.1	3.8	2.9	3.4	3.3	1.2	1.1	0.2	-1.1	0.3	-1.6	0.4	1.8	2.8	0.9
Europe	1.0	1.4	0.4	0.9	2.3	1.3	-0.7	0.7	0.7	-1.8	-0.3	1.4	-0.5	-1.0	0.6	0.1
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.5	-0.5	0.6	1.2	-1.5	0.0	1.3	2.0	0.4
Total OECD	1.4	1.1	1.7	2.2	1.9	1.7	0.8	1.2	0.3	-1.0	0.3	-0.7	0.0	0.9	2.0	0.6
FSU	3.2	-8.2	16.0	10.5	2.8	4.7	8.6	-0.3	-0.1	-2.7	1.2	1.3	-2.2	0.8	3.8	1.0
Europe	3.8	6.1	6.2	6.7	6.8	6.5	2.6	2.6	2.0	1.8	2.2	2.8	1.5	1.8	1.8	2.0
China	11.0	18.0	23.4	9.2	12.0	15.4	4.3	-1.9	4.9	2.4	2.4	2.5	6.7	5.3	6.5	5.3
Other Asia	1.3	7.5	9.7	5.7	5.1	7.0	4.3	2.3	2.5	-1.7	1.8	-0.4	0.1	0.4	2.5	0.7
Latin America	-1.8	5.2	5.3	4.2	3.1	4.4	3.1	3.0	2.4	2.1	2.6	2.4	2.1	2.3	2.3	2.3
Middle East	2.0	6.8	10.4	6.9	6.2	7.5	5.6	5.7	5.2	4.9	5.4	5.2	5.4	5.1	5.5	5.3
Africa	1.7	2.9	3.8	3.9	3.0	3.4	3.5	3.5	2.7	2.9	3.2	2.5	2.5	2.5	2.5	2.5
Total Non-OECD	2.9	6.5	11.6	6.8	5.9	7.6	4.7	2.0	3.1	1.1	2.7	2.1	2.6	2.8	3.9	2.8
World	2.0	3.2	5.5	4.0	3.4	4.0	2.3	1.5	1.4	-0.1	1.3	0.4	1.1	1.6	2.8	1.5
Annual Change (mb/d)																
North America	0.40	0.76	0.93	0.70	0.85	0.81	0.31	0.27	0.06	-0.28	0.09	-0.40	0.10	0.47	0.71	0.22
Europe	0.16	0.22	0.05	0.14	0.36	0.20	-0.10	0.10	0.11	-0.29	-0.04	0.21	-0.08	-0.15	0.10	0.02
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.20	-0.04	0.06	0.10	-0.14	0.00	0.11	0.17	0.04
Total OECD	0.69	0.57	0.79	1.07	0.92	0.84	0.41	0.58	0.13	-0.51	0.15	-0.34	0.02	0.43	0.98	0.28
FSU	0.11	-0.31	0.51	0.36	0.11	0.17	0.30	-0.01	0.00	-0.11	0.04	0.05	-0.08	0.03	0.15	0.04
Europe	0.03	0.05	0.04	0.04	0.05	0.04	0.02	0.02	0.01	0.01	0.02	0.02	0.01	0.01	0.01	0.01
China	0.55	0.96	1.24	0.53	0.71	0.86	0.27	-0.12	0.31	0.16	0.15	0.16	0.43	0.35	0.44	0.35
Other Asia	0.11	0.59	0.76	0.46	0.43	0.56	0.37	0.20	0.21	-0.15	0.16	-0.04	0.01	0.04	0.22	0.06
Latin America	-0.09	0.23	0.25	0.20	0.15	0.21	0.15	0.14	0.12	0.10	0.13	0.12	0.11	0.12	0.12	0.11
Middle East	0.11	0.37	0.53	0.39	0.34	0.41	0.32	0.33	0.31	0.29	0.31	0.32	0.32	0.32	0.34	0.32
Africa	0.05	0.08	0.10	0.10	0.08	0.09	0.10	0.10	0.07	0.08	0.09	0.07	0.07	0.07	0.07	0.07
Total Non-OECD	0.86	1.96	3.44	2.09	1.87	2.34	1.53	0.66	1.03	0.39	0.90	0.71	0.86	0.94	1.35	0.97
World	1.55	2.53	4.23	3.16	2.79	3.18	1.94	1.23	1.16	-0.12	1.05	0.37	0.89	1.37	2.33	1.25
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-	-	-	-	-	-	-	-0.04	-0.01	-0.21	-0.18	-0.03	-0.03	-0.11
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.01	-0.01	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-0.09	-	0.01	-0.01	-0.02
Total OECD	-	-	-	-	-	-	-	-	-	-0.04	-0.01	-0.30	-0.18	-0.03	-0.05	-0.14
FSU	-	-	-	-	-	-	-	-	-	-	-	-0.11	-0.24	-0.07	0.02	-0.10
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-0.03	-0.01	-0.01	-0.01	-0.01
Other Asia	-	-	-	-	-	-	-	-	0.01	-0.02	-	0.07	0.01	0.01	-0.01	0.02
Latin America	-	-	-	-	-	-	-	-	-	-	-	0.01	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	0.01	-	-	-	-	0.01	-
Total Non-OECD	-	-	-	-	-	-	-	-	0.01	-0.01	-	-0.06	-0.25	-0.07	0.01	-0.09
World	-	-	-	-	-	-	0.01	-	0.01	-0.04	-0.01	-0.35	-0.43	-0.10	-0.04	-0.23
Revisions to Oil Demand Growth from Last Month's Report (mb/d)																
World	-	-	-	-	-	-	0.01	0.00	0.01	-0.04	-0.01	-0.36	-0.43	-0.11	0.01	-0.22

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	4Q05	1Q06	2Q06	3Q06	4Q06	Feb 06	Mar 06	Apr 06
OPEC											
Crude Oil											
Saudi Arabia	8.75	9.15		9.21	9.17				9.15	9.21	9.21
Iran	3.93	3.88		3.89	3.84				3.92	3.92	3.83
Iraq	1.99	1.81		1.66	1.71				1.84	1.81	2.02
UAE	2.35	2.46		2.60	2.61				2.63	2.67	2.61
Kuwait	2.05	2.13		2.20	2.22				2.22	2.22	2.22
Neutral Zone	0.60	0.58		0.58	0.59				0.59	0.58	0.58
Qatar	0.77	0.80		0.82	0.82				0.82	0.82	0.83
Nigeria	2.32	2.40		2.45	2.23				2.27	2.08	2.13
Libya	1.55	1.64		1.65	1.67				1.67	1.68	1.70
Algeria	1.20	1.34		1.37	1.36				1.36	1.36	1.36
Venezuela	2.59	2.71		2.65	2.63				2.64	2.60	2.63
Indonesia	0.97	0.94		0.94	0.92				0.92	0.93	0.93
Total Crude Oil	29.06	29.85		30.02	29.78				30.02	29.87	30.04
Total NGLs[1]	3.85	4.09	4.35	4.17	4.25	4.32	4.40	4.44	4.24	4.23	4.27
Total OPEC	32.91	33.94		34.19	34.02				34.26	34.10	34.31
NON-OPEC[2]											
OECD											
North America	14.58	14.09	14.33	13.65	14.17	14.26	14.31	14.56	14.11	14.07	14.17
United States	7.66	7.28	7.33	6.62	7.20	7.26	7.42	7.42	7.20	7.17	7.19
Mexico	3.83	3.76	3.73	3.72	3.78	3.75	3.71	3.69	3.75	3.78	3.76
Canada	3.09	3.05	3.27	3.30	3.19	3.25	3.17	3.45	3.16	3.12	3.22
Europe	6.10	5.64	5.40	5.50	5.57	5.33	5.23	5.47	5.56	5.48	5.33
UK	2.06	1.83	1.75	1.78	1.85	1.73	1.62	1.79	1.82	1.81	1.76
Norway	3.19	2.97	2.86	2.92	2.91	2.81	2.82	2.90	2.92	2.86	2.77
Others	0.85	0.84	0.79	0.81	0.81	0.79	0.79	0.78	0.82	0.80	0.80
Pacific	0.58	0.58	0.55	0.56	0.50	0.52	0.57	0.60	0.52	0.52	0.50
Australia	0.54	0.54	0.50	0.52	0.45	0.48	0.53	0.56	0.48	0.48	0.46
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	20.31	20.27	19.71	20.23	20.11	20.11	20.63	20.20	20.07	20.00
NON-OECD											
Former USSR	11.22	11.63	12.04	11.89	11.71	12.00	12.14	12.31	11.71	11.83	11.97
Russia	9.23	9.48	9.72	9.64	9.53	9.66	9.76	9.92	9.50	9.60	9.64
Others	1.99	2.15	2.33	2.25	2.18	2.34	2.38	2.39	2.21	2.23	2.33
Asia	6.25	6.34	6.50	6.37	6.47	6.51	6.51	6.52	6.47	6.47	6.49
China	3.48	3.62	3.71	3.59	3.68	3.70	3.72	3.73	3.66	3.70	3.70
Malaysia	0.86	0.83	0.82	0.85	0.83	0.82	0.81	0.80	0.84	0.81	0.83
India	0.80	0.77	0.82	0.75	0.79	0.82	0.83	0.83	0.79	0.80	0.82
Others	1.11	1.13	1.16	1.18	1.17	1.16	1.16	1.15	1.18	1.17	1.15
Europe	0.17	0.16	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Latin America	4.08	4.29	4.48	4.32	4.34	4.40	4.51	4.67	4.32	4.33	4.37
Brazil	1.79	1.98	2.18	2.02	2.06	2.09	2.20	2.36	2.05	2.06	2.08
Argentina	0.80	0.78	0.75	0.76	0.76	0.76	0.75	0.74	0.74	0.77	0.77
Colombia	0.53	0.53	0.53	0.53	0.53	0.53	0.54	0.54	0.54	0.53	0.53
Ecuador	0.53	0.53	0.55	0.55	0.52	0.55	0.56	0.56	0.51	0.52	0.55
Others	0.42	0.47	0.46	0.47	0.47	0.46	0.46	0.46	0.47	0.46	0.46
Middle East[3]	1.92	1.83	1.79	1.81	1.79	1.80	1.79	1.78	1.79	1.78	1.81
Oman	0.79	0.77	0.75	0.76	0.75	0.75	0.74	0.74	0.75	0.74	0.76
Syria	0.49	0.46	0.43	0.44	0.44	0.43	0.43	0.42	0.44	0.44	0.44
Yemen	0.41	0.41	0.42	0.41	0.41	0.41	0.42	0.42	0.41	0.41	0.41
Africa	3.37	3.67	4.14	3.87	3.92	4.06	4.24	4.35	3.91	3.95	4.06
Egypt	0.71	0.70	0.69	0.70	0.69	0.69	0.69	0.69	0.70	0.69	0.69
Angola	0.99	1.25	1.47	1.39	1.42	1.39	1.50	1.58	1.41	1.42	1.42
Gabon	0.24	0.23	0.23	0.24	0.24	0.24	0.23	0.23	0.24	0.24	0.24
Others	1.44	1.50	1.75	1.55	1.57	1.74	1.82	1.85	1.56	1.61	1.71
Total Non-OECD	27.01	27.93	29.11	28.42	28.38	28.91	29.35	29.78	28.34	28.52	28.86
Processing Gains[4]	1.83	1.86	1.90	1.88	1.92	1.89	1.88	1.92	1.92	1.92	1.92
TOTAL NON-OPEC	50.10	50.10	51.28	50.01	50.53	50.91	51.33	52.33	50.45	50.51	50.79
TOTAL SUPPLY	83.01	84.04		84.19	84.55				84.72	84.61	85.09

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Venezuelan Orimulsion (but not Orinoco 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			
	Nov2005	Dec2005	Jan2006	Feb2006	Mar2006*	Mar2003	Mar2004	Mar2005	2Q2005	3Q2005	4Q2005	1Q2006
North America												
Crude	456.7	456.9	453.2	463.6	475.4	397.0	415.3	434.6	0.14	-0.15	0.25	0.20
Motor Gasoline	230.3	234.8	254.6	257.1	243.7	232.2	231.9	244.8	0.00	-0.19	0.08	0.10
Middle Distillate	210.8	213.1	221.6	212.9	198.8	165.0	170.1	175.3	0.17	0.08	0.16	-0.16
Residual Fuel Oil	47.2	44.3	50.6	53.2	51.6	41.0	47.3	48.8	-0.03	-0.04	0.02	0.08
Total Products[3]	673.4	657.9	690.0	677.7	644.5	576.5	591.3	626.0	0.57	-0.16	-0.06	-0.15
Total[4]	1289.3	1256.2	1282.2	1276.7	1261.6	1103.2	1144.7	1199.8	0.82	-0.19	-0.01	0.06
Europe												
Crude	326.5	326.3	328.9	336.7	339.5	335.9	338.9	342.7	-0.06	0.01	-0.13	0.15
Motor Gasoline	111.3	113.1	119.4	119.1	115.5	119.9	114.8	121.1	-0.19	0.02	0.08	0.03
Middle Distillate	259.3	256.3	268.1	261.8	254.5	217.1	217.0	245.5	-0.03	0.18	-0.03	-0.02
Residual Fuel Oil	77.3	73.6	74.4	71.3	70.2	70.1	75.2	68.3	0.04	0.05	-0.02	-0.04
Total Products[3]	549.2	545.5	564.4	554.5	542.4	507.5	503.9	539.9	-0.22	0.24	0.04	-0.03
Total[4]	951.0	943.5	965.1	965.5	955.4	914.2	919.4	956.7	-0.31	0.31	-0.14	0.13
Pacific												
Crude	166.1	157.4	155.6	157.5	162.8	182.8	175.1	169.0	0.08	-0.09	-0.12	0.06
Motor Gasoline	24.2	22.5	24.6	24.7	24.8	24.8	25.2	25.2	-0.01	-0.02	0.00	0.03
Middle Distillate	78.9	61.0	62.6	63.3	61.3	55.8	54.4	48.8	0.11	0.21	-0.18	0.00
Residual Fuel Oil	23.2	20.5	21.3	21.0	19.3	21.9	20.0	21.2	0.02	0.01	-0.04	-0.01
Total Products[3]	191.4	167.4	168.8	171.2	169.9	162.4	157.4	154.9	0.20	0.20	-0.26	0.03
Total[4]	431.8	393.8	392.1	395.0	402.8	411.0	400.4	389.5	0.36	0.11	-0.42	0.10
Total OECD												
Crude	949.4	940.7	937.6	957.7	977.7	915.6	929.2	946.3	0.16	-0.22	0.00	0.41
Motor Gasoline	365.8	370.4	398.6	400.9	384.0	376.8	371.9	391.1	-0.19	-0.19	0.16	0.15
Middle Distillate	549.0	530.3	552.3	538.0	514.6	437.8	441.4	469.6	0.26	0.47	-0.06	-0.17
Residual Fuel Oil	147.6	138.4	146.3	145.6	141.1	133.0	142.5	138.3	0.03	0.01	-0.04	0.03
Total Products[3]	1414.0	1370.8	1423.2	1403.4	1356.8	1246.3	1252.7	1320.8	0.54	0.29	-0.28	-0.16
Total[4]	2672.0	2593.4	2639.4	2637.2	2619.8	2428.4	2464.5	2546.0	0.87	0.23	-0.57	0.29

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			
	Nov2005	Dec2005	Jan2006	Feb2006	Mar2006*	Mar2003	Mar2004	Mar2005	2Q2005	3Q2005	4Q2005	1Q2006
North America												
Crude	685.6	684.5	683.5	684.8	686.4	599.3	652.1	688.2	0.09	-0.03	-0.10	0.02
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	167.7	166.9	169.5	170.2	170.2	159.3	158.0	163.8	0.01	0.02	0.00	0.04
Products	236.5	239.0	235.9	235.2	235.2	207.5	212.2	212.0	0.26	0.02	0.02	-0.04
Pacific												
Crude	380.5	381.6	380.0	380.0	380.4	383.0	386.8	384.5	-0.01	-0.01	-0.01	-0.01
Products	11.3	11.5	11.6	11.3	11.4	9.6	11.0	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1233.9	1233.0	1233.0	1234.9	1237.0	1141.5	1196.9	1236.5	0.09	-0.02	-0.11	0.04
Products	249.8	252.5	249.5	248.5	248.6	219.0	225.3	225.0	0.26	0.02	0.02	-0.04
Total[4]	1484.6	1486.5	1483.4	1484.5	1486.6	1361.5	1423.2	1462.5	0.35	0.00	-0.08	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 March 2005		End June 2005		End September 2005		End December 2005		End March 2006 [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	164.8	74	164.7	74	170.5	77	178.8	-	-	-
Mexico	44.2	21	45.6	22	52.8	25	43.9	-	-	-
United States[4]	1658.8	81	1740.5	84	1707.4	82	1697.9	-	-	-
Total[4]	1889.9	75	1972.9	78	1952.9	77	1942.7	77	1949.9	77
Pacific										
Australia	34.8	38	35.7	40	34.1	37	32.7	-	-	-
Japan	604.9	121	629.4	124	637.9	116	612.1	-	-	-
Korea	137.4	67	142.5	71	145.4	65	134.9	-	-	-
New Zealand	7.9	53	9.0	64	7.9	49	7.2	-	-	-
Total	785.0	97	816.6	101	825.3	93	786.8	84	794.6	98
Europe[5]										
Austria	20.6	70	20.2	67	19.9	68	19.0	-	-	-
Belgium	26.9	48	27.8	53	30.3	48	28.6	-	-	-
Czech Republic	17.0	78	15.9	70	16.7	79	18.8	-	-	-
Denmark	16.3	89	17.2	96	20.5	111	20.3	-	-	-
Finland	26.2	125	27.0	122	27.3	124	25.1	-	-	-
France	187.4	99	185.6	94	191.4	99	195.6	-	-	-
Germany	280.2	111	279.5	102	275.8	106	282.6	-	-	-
Greece	35.7	96	32.6	83	34.6	74	33.1	-	-	-
Hungary	19.6	137	17.0	109	17.1	108	17.6	-	-	-
Ireland	10.6	58	11.6	63	13.2	65	11.6	-	-	-
Italy	133.7	75	132.1	75	137.0	73	132.0	-	-	-
Luxembourg	0.9	13	0.8	13	0.8	12	0.8	-	-	-
Netherlands	109.4	103	116.6	114	115.7	115	116.4	-	-	-
Norway	29.2	130	21.0	88	30.2	99	30.7	-	-	-
Poland	33.9	79	34.5	72	33.8	71	35.2	-	-	-
Portugal	25.6	77	26.5	77	26.8	81	25.7	-	-	-
Slovak Republic	7.0	99	6.5	85	6.4	83	6.4	-	-	-
Spain	126.7	80	129.4	82	131.7	84	128.6	-	-	-
Sweden	32.0	88	35.4	99	34.6	94	38.0	-	-	-
Switzerland	37.1	147	38.0	135	38.9	137	37.7	-	-	-
Turkey	55.4	80	52.2	76	50.8	82	51.2	-	-	-
United Kingdom	102.2	55	102.3	54	108.7	59	95.6	-	-	-
Total	1333.5	87	1329.7	85	1362.1	87	1350.4	86	1361.8	89
Total OECD	4008.4	83	4119.2	84	4140.2	83	4079.9	81	4106.3	84
DAYS OF IEA Net Imports[6]	-	113	-	116	-	116	-	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 2005 and end March 2006 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]*		
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	4016	1435	2581	80	28	51
4Q2004	4000	1450	2550	79	29	51
1Q2005	4008	1462	2546	83	30	52
2Q2005	4119	1494	2625	84	30	53
3Q2005	4140	1494	2646	83	30	53
4Q2005	4080	1487	2593	81	30	52
1Q2006	4106	1487	2620	84	31	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 4Q2005 and 1Q2006 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2003	2004	2005	1Q05	2Q05	3Q05	4Q05	Dec 05	Jan 06	Feb 06	Year Earlier Feb 05	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.55	0.46	0.45	0.45	0.41	0.52	0.63	0.40	0.58	0.44	0.14
Europe	1.00	1.03	0.90	0.88	0.88	0.92	0.91	0.85	0.80	0.78	0.94	-0.15
Pacific	1.18	1.24	1.31	1.40	1.22	1.25	1.37	1.35	1.33	1.38	1.46	-0.09
Saudi Medium												
North America	0.83	0.80	0.81	0.97	0.89	0.58	0.81	0.99	0.60	0.68	1.05	-0.37
Europe	0.11	0.11	0.16	0.12	0.13	0.20	0.16	0.15	0.19	0.13	0.14	-0.01
Pacific	0.24	0.23	0.26	0.21	0.24	0.27	0.32	0.36	0.35	0.41	0.16	0.25
Saudi Heavy												
North America	0.30	0.22	0.17	0.18	0.15	0.20	0.16	0.21	0.22	0.22	0.18	0.04
Europe	0.19	0.23	0.23	0.19	0.20	0.27	0.26	0.18	0.09	0.16	0.16	0.00
Pacific	0.16	0.15	0.25	0.25	0.20	0.26	0.29	0.32	0.23	0.32	0.28	0.04
Iraqi Basrah Light[2]												
North America	0.44	0.71	0.60	0.56	0.69	0.56	0.59	0.58	0.46	0.34	0.52	-0.18
Europe	0.09	0.21	0.23	0.19	0.19	0.24	0.31	0.35	0.29	0.19	0.25	-0.06
Pacific	0.03	0.12	0.06	0.07	0.06	0.06	0.06	0.08	0.08	0.04	0.11	-0.07
Iraqi Kirkuk												
North America	0.06	0.02	..	..	..	..	..	..	..	..	..	..
Europe	0.12	0.08	0.05	0.02	0.04	0.13	0.03	0.02	..	..	0.02	..
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.19	0.24	0.20	0.23	0.18	0.16	0.22	0.29	0.12	0.16	0.20	-0.04
Pacific	0.17	0.16	0.15	0.19	0.13	0.14	0.15	0.17	0.16	0.21	0.15	0.06
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.59	0.57	0.63	0.62	0.63	0.71	0.57	0.44	0.50	0.47	0.75	-0.28
Pacific	0.69	0.65	0.62	0.76	0.59	0.52	0.63	0.79	0.52	0.73	0.69	0.03
Venezuelan Light & Medium												
North America	0.69	0.67	0.82	0.78	0.88	0.79	0.81	0.89	0.71	0.79	0.80	-0.01
Europe	0.02	0.01	0.04	0.02	0.03	0.06	0.07	0.02	0.11	0.06	0.06	0.01
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.60	0.88	0.72	0.83	0.82	0.66	0.56	0.65	0.80	0.69	0.79	-0.11
Europe	0.06	0.05	0.06	0.06	0.06	0.08	0.06	0.06	0.10	0.06	0.08	-0.02
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	1.32	1.36	1.27	1.30	1.36	1.17	1.25	1.38	1.22	1.25	1.24	0.01
Europe	0.16	0.16	0.17	0.18	0.17	0.16	0.18	0.15	0.14	0.13	0.24	-0.12
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.00	..	0.03	0.01	0.00	0.02	0.10	0.13	0.07	0.10	0.01	0.09
Europe	0.00	0.01	0.03	0.02	0.01	0.02	0.05	..	0.02	..	..	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.14	0.12	0.13	0.14	0.14	0.16	0.09	0.00	..	..	0.20	..
Europe	1.62	1.86	1.77	1.72	1.93	1.76	1.69	1.63	1.62	1.49	1.67	-0.18
Pacific	0.00	0.01	0.00	..	0.00	0.01	..	..	..	..	..	..
Nigerian Light[4]												
North America	0.63	0.80	0.90	0.87	0.88	0.94	0.90	0.86	0.84	1.00	1.04	-0.04
Europe	0.41	0.28	0.35	0.30	0.27	0.41	0.41	0.55	0.22	0.35	0.33	0.02
Pacific	0.08	0.11	0.05	0.06	0.06	0.07	0.02	..	0.14	0.10	0.07	0.03
Nigerian Medium												
North America	0.17	0.23	0.17	0.18	0.22	0.13	0.15	0.27	0.19	0.22	0.28	-0.05
Europe	0.06	0.04	0.07	0.07	0.04	0.08	0.07	0.05	0.07	0.10	0.07	0.03
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)

	2003	2004	2005	1Q2005	2Q2005	3Q2005	4Q2005	Dec-05	Jan-06	Feb-06	Year Earlier Feb-05	Year Earlier % change
Crude Oil												
North America	8069	8431	8384	8577	8614	8251	8101	7850	7596	7842	8735	-11%
Europe	9096	9477	9806	9695	9506	10082	9937	9628	9534	9477	10171	-7%
Pacific	6711	6659	6801	7166	6434	6643	6967	7120	7250	7340	6897	6%
Total OECD	23876	24568	24992	25438	24555	24975	25005	24598	24379	24659	25803	-5%
LPG												
North America	27	24	18	23	3	18	30	47	4	12	32	-166%
Europe	193	225	217	293	149	207	220	251	299	225	288	-28%
Pacific	541	541	527	532	591	500	486	615	593	725	529	27%
Total OECD	760	790	762	848	742	725	736	913	897	962	849	12%
Naphtha												
North America	67	99	110	124	89	151	76	98	71	16	122	-672%
Europe	305	282	269	279	231	287	279	264	335	361	298	18%
Pacific	770	769	746	772	759	693	760	752	701	746	728	2%
Total OECD	1142	1150	1125	1175	1080	1132	1115	1114	1108	1123	1148	-2%
Gasoline[3]												
North America	669	794	1013	849	1020	1046	1134	956	1074	1151	1045	9%
Europe	150	137	161	172	145	207	119	166	211	210	195	7%
Pacific	70	105	102	95	130	93	90	86	81	72	82	-14%
Total OECD	888	1035	1275	1115	1294	1346	1343	1208	1366	1432	1321	8%
Jet & Kerosene												
North America	97	101	130	67	43	139	268	191	119	18	65	-268%
Europe	271	293	361	273	361	438	371	383	352	279	322	-16%
Pacific	102	77	66	97	72	48	49	55	138	180	78	57%
Total OECD	470	471	557	437	476	625	687	629	608	477	465	2%
Gasoil/Diesel												
North America	126	123	142	110	92	99	267	225	350	164	148	9%
Europe	652	751	830	931	718	807	867	948	1132	1101	923	16%
Pacific	73	74	79	60	94	79	83	96	74	91	50	45%
Total OECD	850	947	1052	1102	903	984	1217	1269	1556	1356	1121	17%
Heavy Fuel Oil												
North America	326	453	525	489	433	566	610	492	607	499	565	-13%
Europe	398	405	495	415	550	528	487	565	460	594	378	36%
Pacific	88	76	85	83	82	90	82	87	122	127	94	26%
Total OECD	812	935	1105	988	1065	1185	1180	1145	1189	1219	1037	15%
Other Products												
North America	680	872	1005	735	1064	1166	1049	835	1121	1051	766	27%
Europe	690	676	780	722	810	801	786	794	878	785	744	5%
Pacific	235	256	247	254	248	225	263	308	285	262	244	7%
Total OECD	1605	1805	2032	1712	2121	2192	2098	1936	2284	2098	1754	16%
Total Products												
North America	1991	2466	2944	2399	2745	3185	3433	2845	3347	2909	2742	6%
Europe	2657	2767	3114	3085	2963	3275	3130	3371	3667	3555	3149	11%
Pacific	1879	1898	1852	1894	1975	1728	1812	1999	1995	2202	1805	18%
Total OECD	6527	7132	7909	7378	7682	8188	8375	8215	9008	8666	7695	11%
Total Oil												
North America	10061	10897	11328	10976	11359	11436	11534	10694	10943	10751	11477	-7%
Europe	11753	12245	12920	12780	12469	13357	13067	12999	13201	13032	13320	-2%
Pacific	8590	8558	8653	9059	8409	8370	8779	9119	9244	9542	8701	9%
Total OECD	30403	31700	32901	32816	32237	33163	33381	32812	33387	33325	33498	-1%

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

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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 (©2006 Platt's - a division of McGraw-Hill Inc.).

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OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

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AGENCE INTERNATIONALE DE L'ENERGIE

13 June 2006

HIGHLIGHTS

- **NYMEX WTI** futures rose by $0.80/bbl in May to average $70.96/bbl. Prices initially fell alongside a sell-off in global asset markets but later recovered. Prolonged Atlantic Basin refinery maintenance and the start of work in Asia tightened product markets. Strong fundamentals and high crude stocks kept forward prices in contango, NYMEX delivery in a year's time pricing above $75/bbl in early June.

- **OECD crude stocks** rose to their highest level in 20 years as heavy seasonal maintenance cut refinery throughputs. However in April, total oil stocks cover held even at 54 days in view of seasonally rising crude and product demand. OECD industry oil stocks closed at 2631 mb, up 17 mb from March and 58 mb above last year.

- **World oil product demand growth** is broadly unchanged at 1.24 mb/d in 2006. Recent strength in China and the US is partly offset by weakness in OECD Europe and Asia, but still results in a 160 kb/d upward revision to 2Q demand growth. A booming global economy remains supportive, but high prices are weighing on consumption.

- **World oil supply** rose by 445 kb/d in May to 85.0 mb/d, fuelled by increases from OPEC, a lull in North Sea maintenance and recovering US GOM supply. A higher 2005 baseline contributes to weaker non-OPEC supply growth of 1.1 mb/d (plus 265 kb/d of OPEC NGLs) in 2006, down from 1.2 mb/d last month.

- **OPEC crude supply** rose 215 kb/d in May to 29.8 mb/d, following downward revisions to Iranian and Saudi Arabian April supply. Effective OPEC spare capacity remains below 2 mb/d, with security concerns and pipeline outages impeding 800 kb/d of Iraqi and Nigerian output. The call on OPEC crude and stock change is revised up by 0.3 mb/d to 28.4 mb/d for 2Q, and rises to 29.5 mb/d by the end of the year.

Next Issue: 12 July 2006

INTERNATIONAL ENERGY AGENCY (IEA)

AGENCE INTERNATIONALE DE L'ENERGIE

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- Monitor and analyse energy, economic and geopolitical developments in Middle East and North African countries with particular emphasis on their implications for world energy supply and demand, and hence, energy security;
- Provide insights, analysis and data to other IEA tasks on Middle East and North African countries, including the *Oil Market Report*, IEA studies on the energy outlook or other Agency-wide studies;
- Develop and maintain appropriate contacts with government, industry and associations in the countries of the region with a view to improving mutual understanding and increasing information exchange;
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CONTENTS

HIGHLIGHTS....1

CONTENTS....3

FUNDS OR FUNDAMENTALS?....4

DEMAND....6
- Summary....6
- OECD....8
  - North America....8
  - Europe....9
  - Pacific....10
- Non-OECD....11
  - China....11
  - Assessing the Impact of China's Retail Price Increase....13
  - Other Non-OECD....13

SUPPLY....15
- Summary....15
- OPEC....16
- OECD....19
  - North America....19
  - North Sea....20
  - Pacific....21
- Former Soviet Union (FSU)....21
- Other Non-OPEC....23
  - Revisions to Other Non-OPEC Estimates....23

OECD STOCKS....25
- Summary....25
  - OECD Industry Stock Changes in April 2006....26
  - OECD North America....26
  - OECD Europe....26
  - OECD Pacific....27
- OECD Inventory Position at End-April and Revisions to Preliminary Data....27
- Recent Developments in ARA Independent Storage....28
- Recent Developments in Singapore Stocks....28

PRICES....30
- Summary....30
- Oil Futures Prices....31
  - Crude Futures....31
  - Product Futures....32
- Spot Crude Oil Prices....33
  - Delivered Crude Prices in March....35
- Spot Product Prices....35
  - End-User Product Prices in May....37
- Freight....39

REFINERY ACTIVITY....40
- Summary....40
- Refining Margins....40
  - OECD North America....40
  - OECD Europe....41
  - Asia....42
- OECD Refinery Yields....42
- Refinery Throughput....44
  - OECD North America....44
  - OECD Europe....44
  - OECD Pacific....45
  - Offline Refinery Capacity....45
  - Non-OECD Throughputs....46

TABLES....47

OIL MARKET REPORT CONTACTS

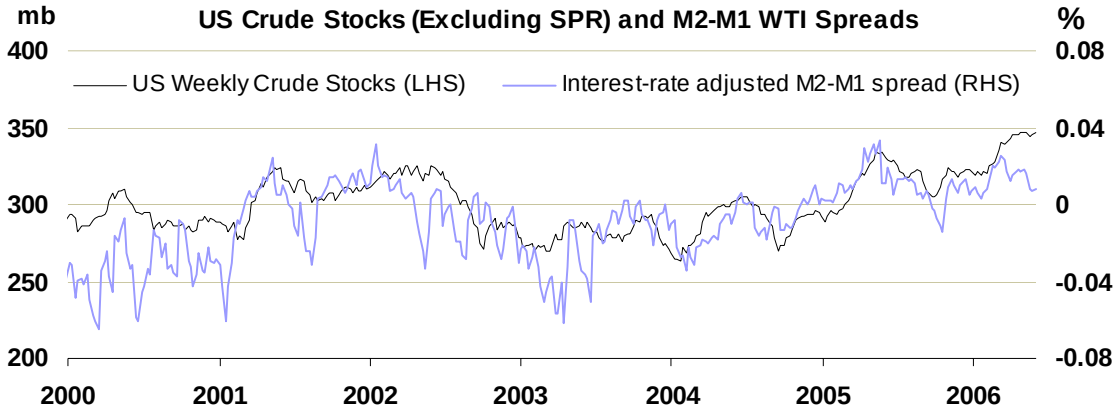
FUNDS OR FUNDAMENTALS?

Over the years, we have repeatedly heard that speculators are responsible for higher oil prices. Blaming speculators for price moves is nothing new: in the 1950s, they were blamed for distorting US onion prices and in the 1990s the baton passed to the hedge funds. Now the blame game has shifted to the index funds.

These passive buy-side investment funds are designed to expand the investment basket and (through negative correlation with other assets) reduce portfolio risk. Although they tend to be fully funded rather than leveraged investments, the rapid growth in these funds means that there has been a large influx of money into the commodity markets. Investment in these financial vehicles has risen from around $3bn in 2000 to around $90bn at the end of 2005, making them popular scapegoats for rising commodity prices. Yet despite this large flow of money, there are inconsistencies in arguments that these funds have upset the balance of commodity markets.

Commodity index funds were initially structured to take advantage of the typical backwardation in the crude futures markets. But, the unusual coincidence of high crude prices, together with a persistent contango market since the end of 2004 has been cited as evidence of the distorting effect of fund money. But what evidence is there to support this claim?

If the funds are distorting the forward spreads, then that could have resulted in a breakdown in the forward price/inventory relationship. It has not. If anything, the M1-M2 contango in the market is actually less than might be expected given the current level of stocks.



This still leaves the chicken and egg situation - do stock levels drive the contango or does a contango drive stock levels higher? If we look at another commodity in the index fund basket, such as copper (which has also been trading at record highs) there is a different perspective. At the same time that oil traders are blaming index funds for causing the contango in crude oil futures, some base metal traders blame index funds for pushing the price of copper to record highs and creating a large backwardation in the process. Blaming index funds for distorting the forward curves in divergent directions would appear illogical.

Copper is just one of many other commodities traded by these passive buy side investment funds. So, if the flow of funds into these investment baskets are dictating price direction, then it would be natural to expect affected commodity prices to move in a broadly similar direction. In many instances, they have. But, the moves have been at different times and not all commodities have moved higher. Index funds do not selectively move into commodities when they are cheap, or the fundamentals are compelling, but distribute money into the entire commodity basket simultaneously and according to predetermined weightings. This divergence of trends would suggest that individual fundamentals are still important in shaping prices and with regard to the general upward trend of commodities, we must not forget that global GDP growth has been exceptionally strong for the past three years.

The volume of index fund purchases relative to the underlying size of the market is important. Oil comprises the lion's share of the key investment basket, the Goldman Sachs Commodity Index (GSCI). It is also by far the most liquid commodity. It makes sense therefore that if the weight of

money argument is valid, then those commodities that have a lower ratio of liquidity to index weighting should systematically have outperformed crude –this has sometimes, but not consistently, happened,. Further, other commodity indices often have a lower energy weighting than in the GSCI, so it is likely that the net oil impact is lower and the net 'other commodity' impact is higher.

Identifying the impact of fund money is difficult. Investments in index funds are often classified in the ;long; commercial category of the CFTC Commitment of Traders Report. Again, an imbalance in this sector would be expected to evolve if there had been a significant change in market structure. But, despite a sharp increase in the number of contracts traded, the ratio between commercial short and long positions remains relatively constant. In other words, as index fund buying has increased, so too has commercial selling. This is not necessarily a bad thing.

There tends to be a natural imbalance between hedgers in the oil and other commodity markets. Producers can hedge, but who takes the other side of the transactions? Refiners buy crude, but are partially hedged by their product sales. On the consumer side, airlines, major freight companies and heavy industry could hedge, but small truckers and domestic users are unlikely to have the scale to make hedging viable. This leaves the speculators to make up the liquidity. Controversially, it could therefore be argued that the influx of buy-side index funds has actually helped to improve market functioning (liquidity), rather than distort prices.

However, hedging trends can be cyclical - when the crude market first started to rally beyond $30/bbl producers who had hedge-sold forward production found themselves at a competitive disadvantage to those who were unhedged. Producers withdrew from the sell side of the market as prices rose and at the same time consumers, worried about predictions of much higher prices, increased forward buying activity. To this extent, the addition of buy-side index fund money at the same time as natural sellers were standing back from the market could be argued to have had an impact, but it is impossible to discern with the data we have.

These observations suggest inconsistencies in some of the arguments purporting to show that index funds have distorted spot and forward oil prices, but are far from conclusive. It cannot be said emphatically that index funds have no impact. It has been well documented that large swings in money flows can increase market volatility, but it is less clear that steady, passive flows lead to distortions or higher outright prices. But before pointing the finger, it is necessary for the arguments purporting to show cause and effect to stand up under scrutiny. Many do not.

In reality, there is insufficient information to finalise the debate, with the only insight on market participation coming from the US CFTC Commitment of Traders Report. Its categorisations are too broad to separate key players. Index investments, oil consumers, traders can all come under the same 'catch-all' commercial trader category. There is no distinction between nearby and forward contract months and even if the information was available, commercial hedges used to offset other risk management instruments would further complicate analysis.

Non-US futures markets decided against publishing the identity of futures markets participants many years ago. With the Intercontinental Exchange (ICE) WTI contract gaining in liquidity (and not required to report such data to the CFTC) and the omnipresent option for traders to switch into the grey 'over-the-counter' markets, the chances of more data being made available seem slim.

The onus of ensuring that trading activity remains equitable and unbiased remains with the exchanges and regulators. However, with the exchanges having a vested interest in areas that increase trading activity, there is really a strong need (at the very least) for the publication of detailed independent studies into the impact of commodity index funds. The failure to do so might result in witch-hunting legislation that unnecessarily reduces futures market participation, liquidity and the ability to manage risk.

DEMAND

Summary

- **Global oil product demand growth** in 2006 is revised down very marginally, from 1.25 mb/d to 1.24 mb/d. However, within the adjustments, second quarter demand growth is revised upwards by 160 kb/d as recent strength in China and the US is partly offset by weakness in OECD Europe and Asia. A booming global economy continues to support demand growth, but high prices are weighing on consumption.
- **Non-OECD oil demand growth** clearly dominates the global picture. While its share of global demand is only 41%, non-OECD demand will account for close to 85% of world growth in 2005-2006.

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)	82.6	81.3	82.2	84.2	82.6	84.6	82.5	83.3	84.2	83.7	85.0	83.5	84.7	86.4	84.9
Annual Change (%)	3.3	5.6	4.1	3.5	4.1	2.5	1.5	1.4	0.0	1.3	0.4	1.3	1.6	2.6	1.5
Annual Change (mb/d)	2.6	4.3	3.2	2.8	3.2	2.0	1.2	1.1	0.0	1.1	0.4	1.0	1.4	2.2	1.2
Changes from last month's report (mb/d)	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.2	0.0	-0.1	0.1

- **OECD oil demand** is projected to contract by 50 kb/d year-on-year in the second quarter. In spite of recent resilience in US demand, consumption growth remains weak in other major economies. This is the third consecutive quarterly decline in OECD demand versus previous year's levels. Third and fourth quarter demand growth should rebound in comparison to a hurricane-affected 2005 baseline.

Global Oil Demand by Region
(million barrels per day)

	Demand		Annual Change			Annual Change (%)		
	2005	2006	2004	2005	2006	2004	2005	2006
North America	25.42	25.62	0.81	0.09	0.20	3.3	0.3	0.8
Europe	16.32	16.33	0.21	0.00	0.01	1.3	0.0	0.0
OECD Pacific	8.63	8.64	-0.16	0.10	0.01	-1.9	1.2	0.1
China	6.59	6.96	0.86	0.15	0.38	15.4	2.4	5.7
Other Asia	8.81	8.89	0.59	0.16	0.08	7.3	1.8	0.9
Subtotal Asia	24.03	24.50	1.28	0.41	0.47	5.7	1.8	2.0
FSU	3.80	3.85	0.17	0.05	0.05	4.7	1.3	1.2
Middle East	6.13	6.46	0.40	0.32	0.33	7.4	5.6	5.4
Africa	2.87	2.94	0.10	0.08	0.07	3.7	3.0	2.4
Latin America	5.08	5.20	0.27	0.13	0.12	5.9	2.7	2.3
World	83.66	84.90	3.25	1.08	1.24	4.1	1.3	1.5

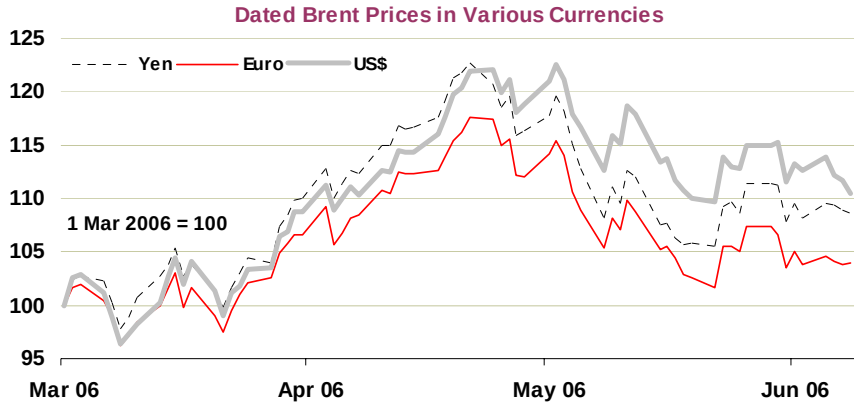
- **US-50 demand** (excluding US territories) is revised upwards by 170 kb/d in the second quarter of 2006. After posting year-on-year declines in six of seven months since August 2005, preliminary indications are that demand grew by a modest 0.8% in April and surged by 3.6% in May. Although robust economic growth should help support US oil demand through 2006, high oil product prices and comparatively low natural gas prices (which discourage interfuel substitution of oil products) will continue to act as a brake on growth. In all, projected US demand growth remains broadly unchanged at 0.9%. This is well below what might typically be expected given projected economic growth of approximately 3.5-4.0% in 2006.
- **Chinese apparent demand** (refinery production plus net product imports) grew by an unexpectedly robust 9.6% year-on-year in April. Gasoline demand was very strong, surging by 19.7%, which is in line with strong vehicle sales. On 24 May the government raised the administered retail price of gasoline and diesel by a reported 9.6% and 11.1% respectively. This should help reduce the pressure on domestic refiners, who have suffered substantial losses under artificially low prices. The retail price increase may add strength to apparent demand in the near term, as refiners are more willing to supply the domestic market at the margin. In the longer term, however, the increase is likely to dampen demand growth to some extent. China's second quarter demand is projected to grow by 8.6% before slowing to a still robust 5.9% over the second half of the year. Transport fuels will lead the way, growing by 7-9% over the remainder of 2006.

Preliminary Inland Deliveries - April 2006[1]

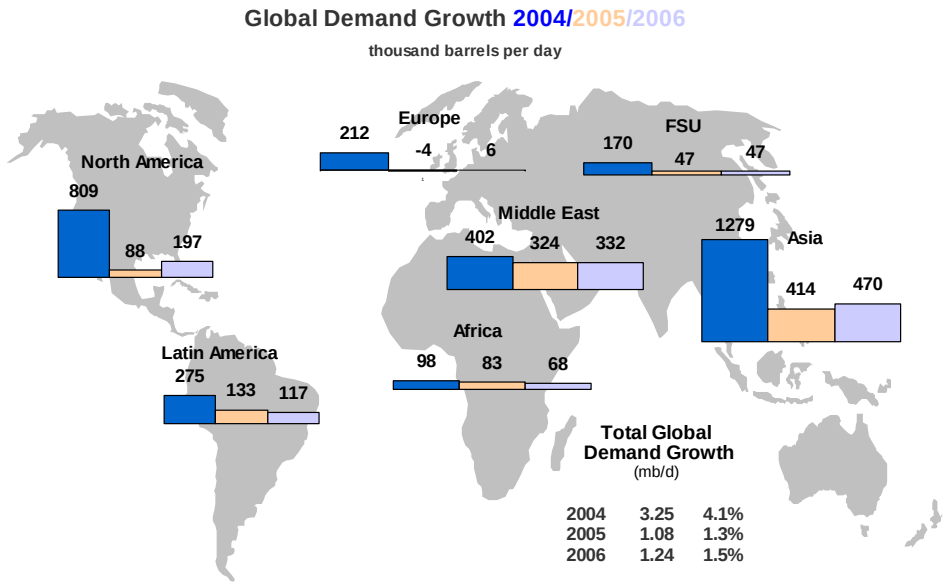
	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
USA[3]	9.14	0.1	1.68	4.9	2.94	-4.5	1.15	11.9	0.75	-9.7	4.9	8.6	20.56	1.9
Canada	0.67	-1.5	0.09	-6.3	0.39	-4.0	0.06	-11.3	0.12	-3.2	0.2	0.0	1.55	-2.8
Mexico	0.69	4.7	0.06	-1.6	0.33	-0.3	0.00	na	0.27	-34.7	0.3	-10.4	1.69	-8.3
Japan	1.04	0.2	0.54	13.4	0.65	-0.6	0.46	-4.7	0.45	0.0	1.5	-5.1	4.64	-0.9
Korea	0.16	1.3	0.07	9.0	0.39	0.0	0.07	25.5	0.25	-12.3	1.0	-11.6	1.94	-6.9
France	0.24	-6.1	0.13	2.0	0.63	-3.8	0.24	4.1	0.06	10.3	0.5	6.0	1.80	0.3
Germany	0.52	-11.0	0.17	4.1	0.54	-13.4	0.37	9.0	0.11	12.9	0.4	-12.6	2.16	-7.0
Italy	0.29	-6.0	0.08	0.0	0.49	-1.9	0.07	-2.6	0.10	-22.6	0.4	-2.8	1.41	-4.7
Total	**12.76**	**-0.5**	**2.84**	**5.6**	**6.36**	**-4.2**	**2.43**	**6.3**	**2.10**	**-11.4**	**9.3**	**1.0**	**35.76**	**-0.6**

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.
Note: Monthly US demand data are subject to revision, as discussed in the Reports dated 13 July and 11 August 2005.

- **India's demand** increased by 6.4% year-on-year in April following relatively anaemic growth of only 0.4% in the first quarter of 2006. Demand for transport fuels increased by over 10% and naphtha demand reversed its downward trend, growing by 9.6% versus year ago levels. This is expected to be short-lived, as the incentive to substitute natural gas for relatively high-priced naphtha in fertiliser production remains. Domestic fertiliser producers are said to be in talks to secure additional volumes of liquefied natural gas (LNG) for this purpose.



The demand-side impact of recent crude oil price increases has been tempered by the decline of the US dollar relative to other major currencies, since crude oil is priced in US dollars. As a hypothetical example, a 13% increase in the US dollar price of Brent crude between 1 March and 1 June translated into only a 5% increase when measured in euros.



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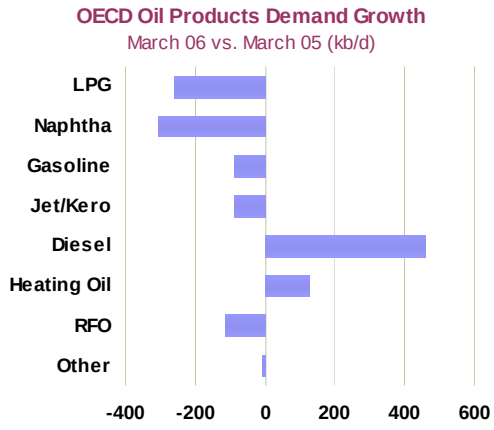
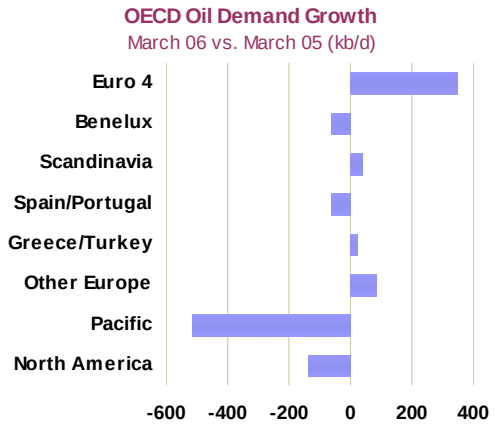




Total OECD Demand by Product
(million barrels per day)

	2004	2005	2Q05	3Q05	4Q05	1Q06	Jan 06	Feb 06	Mar 06	Latest month vs. Feb 06	Latest month vs. Mar 05
LPG & Ethane	4.87	4.73	4.36	4.36	4.78	5.07	5.02	5.33	4.90	-0.42	-0.26
Naphtha	3.22	3.22	3.16	3.24	3.11	3.20	3.26	3.26	3.08	-0.19	-0.31
Motor Gasoline	14.88	14.88	15.08	15.19	14.75	14.35	13.99	14.31	14.76	0.46	-0.09
Jet & Kerosene	4.11	4.22	3.87	3.98	4.39	4.53	4.62	4.54	4.44	-0.10	-0.09
Gas/Diesel Oil	12.85	13.03	12.63	12.73	13.37	13.72	13.17	13.85	14.14	0.28	0.59
Residual Fuel Oil	4.59	4.57	4.36	4.44	4.62	4.77	4.78	4.85	4.67	-0.18	-0.11
Other Products	4.97	5.00	5.24	5.34	4.99	4.69	4.72	4.58	4.76	0.18	-0.01
Total Products	**49.49**	**49.66**	**48.69**	**49.27**	**50.02**	**50.33**	**49.56**	**50.72**	**50.75**	**0.03**	**-0.28**

North America

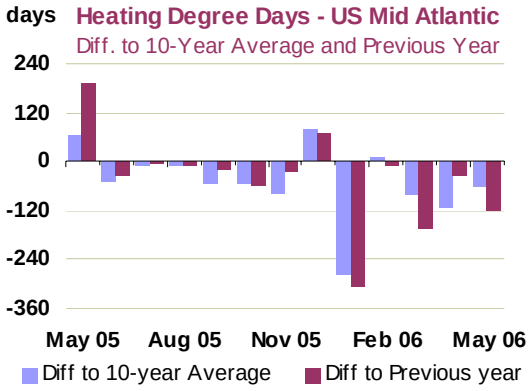
Over the first five months of 2006 the US demand picture was decidedly mixed. The economy grew by a phenomenal 5.3% in the first quarter, but oil product demand fell by 1.5% on a comparable basis. While a substantial portion of the decline may be attributed to unseasonably mild temperatures, elevated retail prices also had an impact. Gasoline consumption, a closely watched indicator of the US oil product market, declined by 0.4% in the first quarter versus year ago levels. This is the first decline since the fourth quarter of 2000, although there is some speculation that first quarter US gasoline demand could be revised upwards with the release of more complete annual data next summer. The US Energy Information Administration (EIA) has cautioned that there have been some difficulties in data collection as the industry makes the transition to MTBE-free gasoline. However, the EIA states that it is taking measures to improve the reporting of ethanol blending.

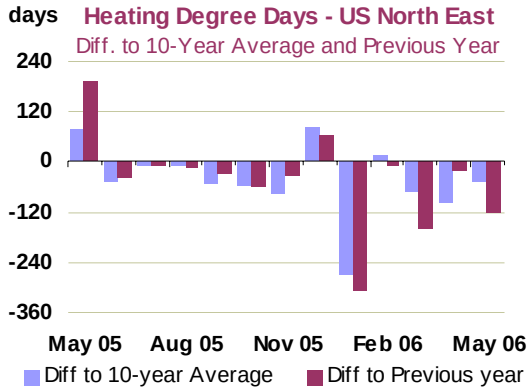
OECD North America Demand by Product
(million barrels per day)

	2004	2005	2Q05	3Q05	4Q05	1Q06	Jan 06	Feb 06	Mar 06	Latest month vs. Feb 06	Latest month vs. Mar 05
LPG & Ethane	2.95	2.80	2.54	2.58	2.81	2.99	2.93	3.14	2.91	-0.23	-0.13
Naphtha	0.50	0.44	0.47	0.49	0.29	0.35	0.35	0.35	0.34	-0.01	-0.17
Motor Gasoline	10.50	10.61	10.74	10.77	10.57	10.34	10.12	10.28	10.63	0.35	0.09
Jet & Kerosene	1.91	1.93	1.89	1.93	1.97	1.87	1.82	1.88	1.90	0.03	-0.04
Gas/Diesel Oil	4.98	5.07	5.00	4.91	5.13	5.34	5.12	5.34	5.55	0.21	0.19
Residual Fuel Oil	1.51	1.58	1.47	1.62	1.63	1.45	1.50	1.37	1.47	0.09	-0.02
Other Products	2.97	3.00	3.18	3.17	3.01	2.77	2.87	2.67	2.77	0.10	-0.06
Total Products	**25.34**	**25.42**	**25.30**	**25.47**	**25.40**	**25.10**	**24.71**	**25.02**	**25.57**	**0.55**	**-0.14**

More recently, preliminary data show a recovery in US oil product demand growth as the economy continues its robust expansion. US-50 (excluding US territories) demand grew by 0.8% in April and estimates based on weekly data show that May demand grew by 3.6%. This is well above expectations and second quarter US demand is revised upwards by some 170 kb/d. The May estimates should be viewed with caution as the volatile 'other products' category, which is prone to revision, accounts for a sizable portion of the increase. Gasoline demand growth remains relatively subdued, at 0.9% in May, but jet fuel/kerosene is exhibiting strength.

Looking to the rest of 2006, while concerns about inflation are mounting, the US economy is expected to remain strong. After month-on-month declines in February and March, US truck tonnage increased by a reported 2.0% in April, the strongest month-on-month increase since January 2005. Similarly, sales of new homes defied predictions in April, growing by 4.9% versus March as prices continued to climb. However, mortgage rates are near four year highs and US mortgage applications are in decline, signalling that the US construction boom that had helped boost oil product demand growth may be ending.





Overall, high oil product retail prices and comparatively low natural gas prices (which discourage interfuel substitution of oil products) will act as drag on demand through the end of the year. Projected US demand growth remains largely unchanged, at 0.9% in 2006. This is well below what might typically be expected, given projected economic growth of about 3.5-4.0%.

Canadian demand remains very weak, posting a year-on-year decline for the eighth straight month in April. Total consumption declined by 6.6% in the first quarter versus year ago levels. In spite of very mild winter temperatures, this is surprising given first quarter economic growth of 3.2%. All major products were down except diesel, which grew by 5.8% year-on-year.

Europe

European oil product demand is revised down by some 310 kb/d in April, as preliminary inland delivery data from key consumers suggest that regional demand declined by some 2.2% year-on-year. As expected, gasoline continued its structural decline in France, Germany and Italy. Unusually, however, April diesel deliveries fell versus year ago levels in all of these economies. This temporary weakness is in part due to the fact that the Easter holiday period fell in April this year, which resulted in fewer working days in April 2006 versus April 2005. Heating oil demand increased in France and Germany as April was colder than last year.

OECD Europe Demand by Product
(million barrels per day)

	2004	2005	2Q05	3Q05	4Q05	1Q06	Jan 06	Feb 06	Mar 06	Latest month vs. Feb 06	Latest month vs. Mar 05
LPG & Ethane	1.03	1.03	0.94	0.94	1.08	1.14	1.12	1.21	1.10	-0.11	-0.04
Naphtha	1.15	1.17	1.15	1.13	1.21	1.16	1.17	1.16	1.16	0.00	0.00
Motor Gasoline	2.78	2.66	2.75	2.76	2.57	2.45	2.36	2.45	2.53	0.08	-0.13
Jet & Kerosene	1.18	1.24	1.21	1.33	1.22	1.23	1.18	1.20	1.32	0.12	0.10
Gas/Diesel Oil	5.98	6.09	5.78	6.06	6.33	6.46	6.24	6.58	6.57	-0.01	0.47
Residual Fuel Oil	2.02	1.95	1.90	1.84	1.93	2.16	2.10	2.27	2.13	-0.14	0.00
Other Products	1.48	1.47	1.56	1.63	1.45	1.28	1.25	1.24	1.33	0.09	-0.02
Total Products	**15.62**	**15.61**	**15.29**	**15.68**	**15.79**	**15.89**	**15.42**	**16.12**	**16.15**	**0.03**	**0.37**

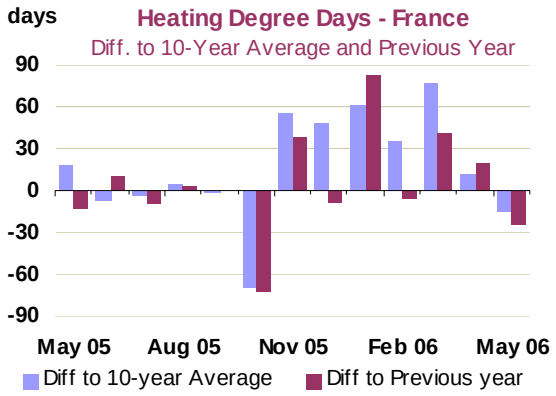
While overall regional demand is stagnant, the first quarter of 2006 illustrates the strength of middle distillates in the European demand slate. Consumption of jet fuel/kerosene (3.6%) and diesel (6.6%) was well above year ago levels. Based on submitted data, only two countries in the region (Belgium and Iceland) reported year-on-year declines in diesel demand in the first quarter of 2006. Seven out of 22 countries reported double-digit diesel demand growth.

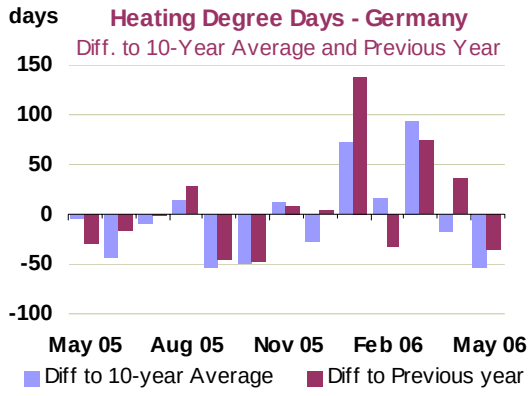
European demand for residual fuel oil was unusually strong overall in the first quarter, increasing by 2.2% year-on-year due to a combination of cold weather and disruptions to Russian natural gas

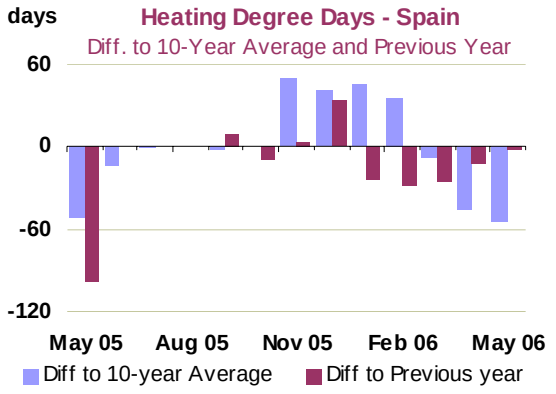
supplies. However, this impact was temporary. As an example, Italy, which was one of the key countries affected by natural gas supply disruptions, saw residual fuel oil demand jump by 19.7% in the first quarter. However, in April fuel oil deliveries were off by some 22.6% versus a year ago as oil input at electric utilities was reported to have dropped by almost 27%. Absent further disruptions, Italy is expected to return to its long-term trend of replacing fuel oil with natural gas. Since 1995, Italy's demand for fuel oil has fallen by 220 kb/d.

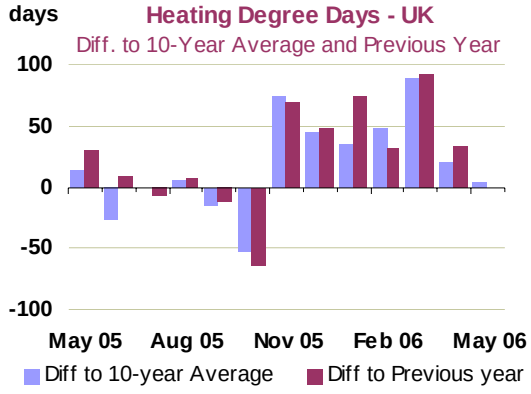
Although the near-term impact will be minimal, many European economies continue to pursue alternative fuel options in response to high oil prices. France is in the early stages of testing flex-fuel cars that can run on either a largely ethanol blend or conventional gasoline, and Renault is reported to have set aggressive production targets for flex-fuel vehicles. There are also reports that compressed natural gas vehicles (CNG) may make further inroads in the German market. The government is said to be moving forward with vehicle tax breaks, prompting manufacturers to produce models designed (rather than converted) to run on CNG. In addition, CNG is currently priced well below the diesel equivalent.

UK demand has been adjusted in anticipation of revisions to previously submitted 2005 data. Demand is revised up by 30 kb/d for 2005 and 50 kb/d in 2006, in part due to very strong reported year-on-year demand growth in the first quarter of 2006.









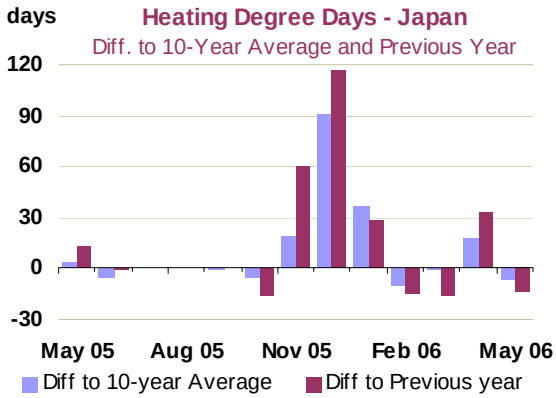
Pacific

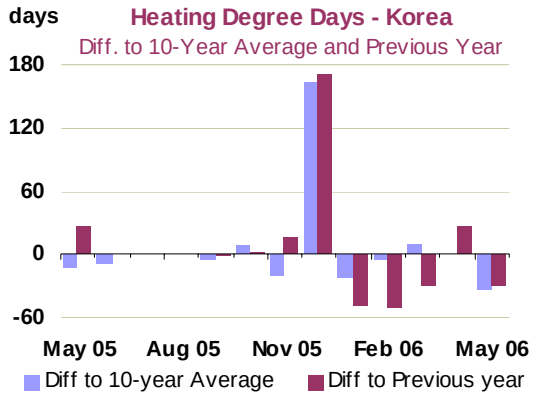
Preliminary inland delivery data show that Japanese and Korean oil product deliveries declined in April versus year ago levels (-0.9% and -6.9% respectively). As discussed in recent Reports, Japan's underlying consumption trend is weaker than total demand would suggest. Growth in the direct burning of crude oil in power generation has supported deliveries of 'other products,' which were up by some 19.8% year-on-year in April. Japanese utilities have shifted to oil in thermal power generation as Indonesia has been unable to supply some contracted LNG volumes. This should taper off as electricity use enters a seasonal lull, but stronger demand could re-emerge later this year.

OECD Pacific Demand by Product
(million barrels per day)

	2004	2005	2Q05	3Q05	4Q05	1Q06	Jan 06	Feb 06	Mar 06	Latest month vs. Feb 06	Latest month vs. Mar 05
LPG & Ethane	0.88	0.90	0.87	0.83	0.90	0.94	0.96	0.97	0.89	-0.09	-0.09
Naphtha	1.57	1.62	1.54	1.62	1.61	1.68	1.74	1.75	1.57	-0.18	-0.13
Motor Gasoline	1.60	1.61	1.59	1.66	1.61	1.56	1.51	1.58	1.61	0.03	-0.05
Jet & Kerosene	1.02	1.05	0.77	0.72	1.20	1.43	1.61	1.46	1.22	-0.24	-0.15
Gas/Diesel Oil	1.89	1.88	1.85	1.76	1.92	1.92	1.81	1.94	2.01	0.08	-0.08
Residual Fuel Oil	1.05	1.05	0.98	0.98	1.06	1.16	1.19	1.21	1.08	-0.13	-0.09
Other Products	0.52	0.52	0.50	0.54	0.53	0.64	0.60	0.67	0.66	-0.01	0.08
Total Products	**8.53**	**8.63**	**8.10**	**8.12**	**8.83**	**9.34**	**9.42**	**9.58**	**9.03**	**-0.55**	**-0.52**

In Korea, maintenance-related turnarounds in the petrochemical sector were reported to be unusually high. As a consequence, inland deliveries of naphtha (which account for about one-third of Korea's total demand) declined by some 14.9% in April. Inland deliveries of residual fuel oil also remained weak (-12.3%) in April as electric utilities are reported to have reduced their oil use by 29%. In spite of the fact that its economy is projected to grow by over 5% in 2006, Korea's oil product demand is expected to decline by 0.8% versus 2006.





Non-OECD

China

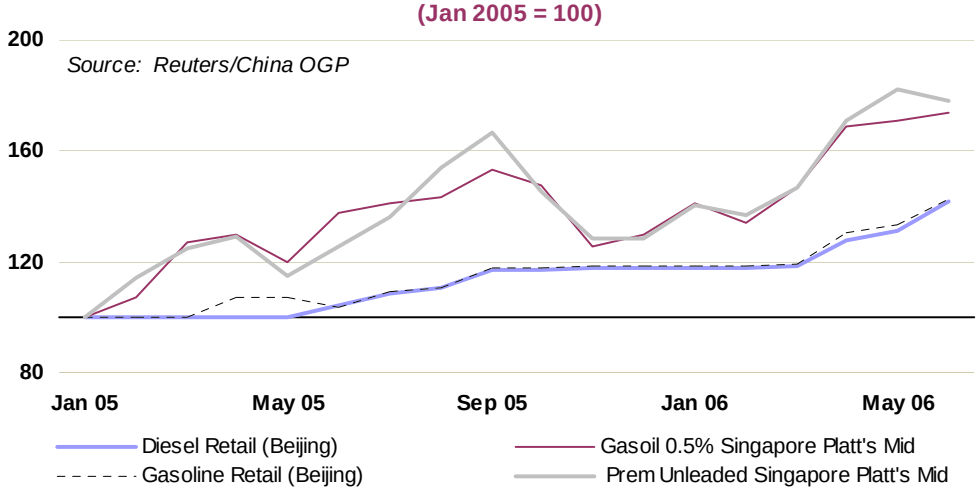
Following unexpectedly weak first quarter apparent demand (refinery production plus net product imports) growth of only 2.5%, Chinese demand bounced back in April, surging 9.6% year-on-year. Among individual products, gasoline demand is on the upswing, posting year-on-year growth of 19.7%, which is consistent with robust vehicle sales. While implied diesel demand grew by only 3.7% in the first quarter, demand increased by 10.9% in April, which is more in line with expectations given China's rapidly expanding economy. Residual fuel oil demand continued on a declining trend (-4.4%) as the demand for oil in power generation wanes.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2004	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
LPG & Ethane	633	631	625	-2	-6	-0.3	-1.0
Naphtha	684	750	855	66	104	9.7	13.9
Motor Gasoline	1069	1092	1173	23	81	2.1	7.4
Jet & Kerosene	239	246	264	6	18	2.6	7.5
Gas/Diesel Oil	2150	2264	2417	114	153	5.3	6.8
Residual Fuel Oil	829	748	715	-82	-33	-9.8	-4.4
Other Products	828	857	916	28	59	3.4	6.9
Total Products	**6433**	**6587**	**6964**	**154**	**377**	**2.4**	**5.7**

On 24 May, China moved to raise the administered retail price of key products. A reported 9.6% and 11.1% increase in the price of gasoline and diesel respectively was larger than expected by many market observers. By way of contrast, the March 2006 retail price increase was only 3-5%. It should be noted that the domestic price increases are still below the run-up in international market prices, so the possibility of further adjustments remains.

Gasoline and Diesel Retail Prices in Beijing vs. Singapore Spot Prices (Jan 2005 = 100)



The retail price increase helps reduce the pressure on domestic refiners, who had vociferously complained about the increasingly large losses they were sustaining under artificially low administered prices. In an effort to soften the blow of the price increases and to head off possible unrest, the Chinese government has stated that it will increase subsidies to groups it considers vulnerable, such as farmers and fishermen. The National Development and Reform Commission (NDRC) recently ordered state-run oil firms to increase diesel production and limit exports to ensure that the domestic market is adequately supplied this summer.

Weather forecasters are predicting that this summer could be warmer than average, especially in the South, but it is unlikely that this will lead to widespread power shortages as witnessed in 2004. The government recently reported that 30 GW of new capacity will be added in the first half of the year, and for the whole of 2006 it expects additions of 75 GW (by comparison, about 1.5 times Australia's total power generation capacity). In addition, water volumes for China's major hydropower reservoirs are reported to be over 16% above year ago levels, which should boost hydropower generation this summer. China also recently received its first LNG shipment into Southern China. Some 65% of the contracted 3.7 million tonnes per annum is slated for the power sector, which will contain the demand for oil in power in coming years. Given these developments, the Chinese government forecasts that the peak power capacity shortage should fall to 8 GW this summer, well down from 30-40 GW in 2004.

China Crude & Product Trade
(thousand barrels per day)

	2004	2005	2Q2005	3Q2005	4Q2005	1Q2006	Feb 06	Mar 06	Apr 06	Latest month vs. Mar 06	Latest month vs. Apr 05
Net Imports/(Exports) of:											
Crude Oil	2346	2387	2541	2294	2407	2872	2921	2697	2773	76	70
Products & Feedstocks	661	480	375	445	599	512	516	553	652	99	251
Gasoil/Diesel	43	-19	-27	-40	-3	-10	-2	-30	-4	26	42
Gasoline	-125	-130	-161	-155	-55	-107	-125	-104	-63	41	107
Heavy Fuel Oil	506	418	395	397	402	406	410	414	447	32	25
LPG	201	194	179	216	182	146	170	149	217	68	8
Naphtha	-33	-35	-67	-25	1	-15	-3	-15	-18	-2	51
Jet & Kerosene	16	11	5	2	30	43	-11	106	24	-83	12
Other	52	41	51	49	42	49	78	33	49	16	6
Total	3008	2867	2916	2739	3006	3384	3437	3250	3425	175	321

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

Assessing the Impact of China's Retail Price Increase

Speculation abounds as to how the 24 May increase in administered retail prices will impact China's apparent oil demand in coming months. The answer is not entirely clear, because the domestic market is opaque and the government plays a pivotal role on the supply side. To summarise, based on anecdotal evidence, it seems likely that for a short period higher prices will induce additional refinery output and help limit oil product exports, thereby boosting apparent demand growth. In the longer term, as would typically be expected, higher prices could dampen consumption growth.

In a freely functioning oil product market the impact of an increase in prices is clear—all else equal, consumption growth slows. The only question is the magnitude of the negative impact. Similarly, in cases where governments explicitly subsidise prices, a reduction in the subsidy typically leads to a slowing of consumption growth, as witnessed throughout Southeast Asia over the past year. Thailand and Indonesia stand out as examples of cases where oil product demand stagnated or declined as retail price subsidies were eliminated or reduced. This is in spite of the fact that these economies continued to post economic growth of 4-5%.

In contrast, China's situation is more complicated to assess. The government has simply set a price that is below international market levels, without an explicit subsidy. If China's suppliers could freely direct their output, holding domestic prices constant while international market prices are rising would result in an increase in product exports and a decline in imports. Consumer demand would exceed domestic supply and shortages would result. This is one of the few situations where a price rise would most likely contribute to an increase in apparent demand growth as producers boost domestic supply to satisfy excess demand.

However, China's oil market is not freely functioning. The government applies pressure to the major state-run refiners to supply the market regardless of profitability. These refiners (which account for approximately 90% of the market) have had to satisfy consumer demand at retail prices that are below international market levels (including taxes), incurring large losses. They do supply the market, but reluctantly at the margin, and spot shortages occasionally occur. While normally an increase in retail prices would slow consumption growth, as witnessed in Southeast Asia, in China the recent price increase will likely encourage refiners to increase crude runs in the near term, thereby boosting apparent demand growth. This consumption rebound is temporary, and later in the year the price increase could have a dampening affect.

On the whole, second quarter oil product demand is projected to expand by 8.6% versus year ago levels, before slowing to a still robust 5.9% over the second half of the year. Apparent demand for transport fuels is expected to expand by 7-9% year-on-year over the second through fourth quarters.

As a final note, while apparent demand for oil products increased by almost 10% in April, crude oil imports declined by 1.9% year-on-year. This apparent disconnect is not particularly surprising, because in the first quarter the situation was reversed. That is, growth in the apparent demand for crude oil (domestic crude production + net crude imports) far exceeded growth in the apparent demand for oil products (refinery output + net product imports), largely because crude imports increased by some 25% year-on-year in the first quarter. As the two measures of apparent demand growth should be roughly equal over the long term, a period of comparatively strong growth in the apparent demand for oil products was in order.

Other Non-OECD

This month's Report continues to incorporate preliminary adjustments to historical non-OECD demand as data become available. At this point the bulk of the 2004 revisions are included. Detailed product-level data extending through to 2004 will be published with the release of the Annual Energy Statistics of Non-OECD Countries this August. The impact of the most recent revisions on the 2004 baseline is mixed, albeit relatively minor, with downward adjustments to non-OECD Europe, the Middle East and Africa balanced by upward revisions to Latin America and 'other' Asia. On the whole, 2004 demand is revised up by 30 kb/d, which is largely extended through to subsequent periods. Adjustments have also been made to estimates of seasonal consumption profiles for the Middle East, particularly for Saudi Arabia and Kuwait, which shifts some consumption into the summer months.

After posting relatively anaemic year-on-year growth of only 0.4% in the first quarter of 2006, **India's** demand grew by 6.4% in April. Strong growth was anticipated, as the April 2005 baseline was somewhat weak, but preliminary demand estimates exceeded expectations. Demand for transport fuels was very strong, with both gasoline and diesel demand growing by over 10% and the demand for jet fuel increasing by a reported 28% as discount airlines continue to attract new passengers.

Unusually, India's naphtha demand grew by some 9.6% versus year ago levels. However, this is expected to be temporary as the incentive to substitute natural gas for relatively high-priced naphtha remains. India has recently secured spot LNG from Algeria, Egypt and Oman which is outside its long-term contract with Qatar. Shell is also reported to be in talks with fertilizer producers to satisfy their feedstock requirements at prices that are well below current naphtha prices.

On 5 June India raised gasoline and diesel prices by 9.2% and 6.6% respectively. This move was anticipated, as the oil ministry had estimated that state energy firms would lose over $16 billion in the fiscal year to March 2007 at current prices, and some state firms were pushing for a 25% increase. Administered prices were last increased by 7% in September.

Although **Indonesian** demand remains very weak following a dramatic October 2005 price increase, recent reports suggest that it may not be quite as weak as previously thought. Demand is revised up by 20 kb/d for 2006, but is still expected to decline by 8.9% for the year as a whole. A major 27 May earthquake disrupted regional consumption patterns, but rescue and rebuilding efforts may counteract damage related declines, mitigating the overall impact on demand. International health officials report that Indonesia recently saw the largest cluster of avian flu observed to date. At this time the impact of the illness remains localised, as the number of deaths was contained at six people, but this certainly bears watching as a widespread outbreak could have a major affect on oil product consumption.

Malaysia recently saw rare protests against increases in the price of oil products and electricity. The government has stated that it will seek to avoid future increases to administered product prices, even if oil prices rise further.

There are reports of oil product shortages in **Iraq** as there appears to be difficulty in securing petroleum product imports. Adding to the difficulties, trucks carrying petroleum products have been a target of attacks. At this point it is difficult to assess the exact impact on demand, as power shortages have encouraged the use of gasoline powered generators, thereby adding to gasoline requirements.

FSU apparent demand (crude production less net crude and product exports) is revised up 50 kb/d in the second quarter as April exports came in 160 kb/d lower than expected. However, preliminary indications suggest that May exports were much stronger than in April, as companies had sought to maximise crude exports prior to a 1 June increase in export duties. For 2006 as a whole, the apparent demand picture remains largely unchanged at 10 kb/d above last month's Report.

SUPPLY

Summary

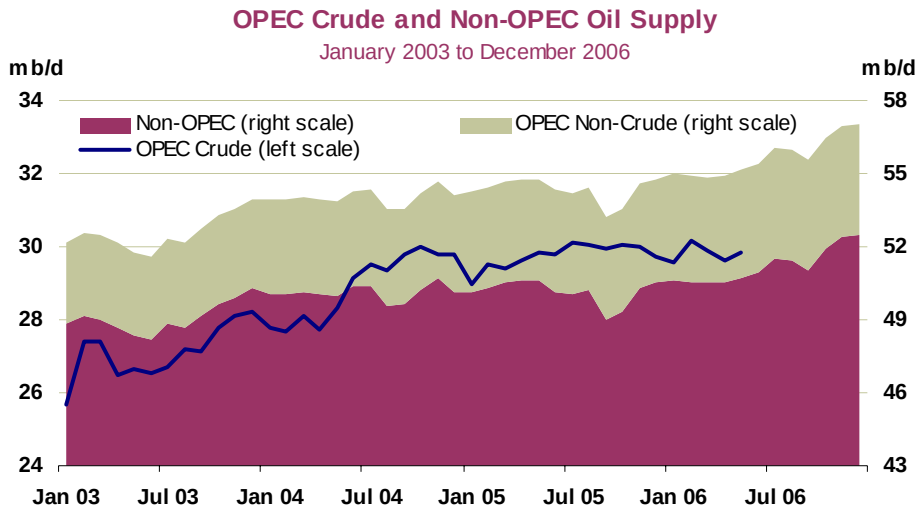
- **World oil supply** in May is estimated up by 445 kb/d from a downward-adjusted April base. Total supply reached 85.0 mb/d. Increases derived 275 kb/d from OPEC, and 210 kb/d from the OECD, where a pause in North Sea maintenance played a part. Among other non-OPEC producers, increases from Asia and Latin America were offset by declines from Africa and the Middle East. An upward revision of 215 kb/d for first quarter supply came mainly from OPEC crude and NGLs. However, a sizeable 580 kb/d downward revision to April supply was due to lower OPEC and OECD supplies.

- **Non-OPEC supply** is revised up by 40 kb/d for 2005, largely due to higher baseline data for Oman. In contrast, this year's non-OPEC total of 51.2 mb/d has been revised down by 55 kb/d. Growth in 2006 therefore comes to 1.1 mb/d, plus 265 kb/d from OPEC NGLs and non-conventional supply. Increases totalling 900 kb/d in 2006 stem from the FSU and Africa. The two regions are already estimated to have seen yearly growth averaging some 680 kb/d in the first quarter of 2006. However, equally important in achieving the 2006 growth figure will be the performance of OECD production. It is assumed that the production decline evident since third quarter 2004 can be reversed in second half 2006. Much will depend on the pace of production recovery from the US Gulf of Mexico and the extent of outages due to the 2006 hurricane season.

- **OPEC crude supply** for May is estimated at 29.8 mb/d, a rise of 215 kb/d versus April. Increases of 100-150 kb/d each were recorded by Iran, Nigeria and Saudi Arabia, offsetting lower output from Iraq, the UAE and Venezuela. However, these moves originated from a markedly lower April base of 29.6 mb/d, 425 kb/d lower than last month's estimate. Based on the latest export indications, Saudi Arabia and Iran now appear to have supplied 9.25 mb/d and 3.7 mb/d respectively in April.

- **OPEC-10** production targets were held unchanged at 28.0 mb/d at the Organisation's 1 June meeting in Caracas. Some 800 kb/d of Nigerian and Iraqi production remains shut-in due to security concerns and damage to pipelines. Notional spare capacity for OPEC as a whole rose above 3.0 mb/d in April and remained above that threshold in May. However, effective physical spare capacity excluding Indonesia, Iraq, Nigeria and Venezuela was around 1.9 mb/d.

- **The 'call on OPEC crude and stock change'** for 2006 remains at 29.2 mb/d, compared to 29.3 mb/d in 2005. The call for second quarter 2006 is revised up by 0.3 mb/d to 28.4 mb/d on weaker non-OPEC supply and stronger non-OECD demand. However the call for second half 2006 is revised down modestly, averaging 28.8 mb/d in 3Q and 29.5 mb/d in 4Q.



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

Crude supply from OPEC rose by 215 kb/d in May to average 29.8 mb/d. This Report's April assessment is revised by 425 kb/d to reflect downward adjustments to April export levels from Saudi Arabia, Iran and, to a lesser extent, Iraq. A modest May rebound after April's fall occurred in Iran and Saudi Arabia, although both producers have seen curbed demand for their heavy/sour crude grades during what is likely to be the peak of 2006's refinery outages. Iraqi supply edged 90 kb/d lower in May to 1.9 mb/d, but sustained southern exports have kept production above December/January lows near 1.5 mb/d. Nigeria continued to see over 0.5 mb/d of supply shut-in during May but did manage to push production towards 2.3 mb/d on rising deepwater supply. UAE supply is assessed marginally lower on reports of field maintenance. Initial indications suggest minimal impact on production from late May's Indonesian earthquake.

Sustainable production capacity levels were unchanged for May at 32.8 mb/d, while generally lower production levels in April and May pushed notional spare capacity through the 3 mb/d level. However, in as much as this includes physical volumes from Indonesia, Iran, Nigeria and Venezuela that may be difficult to produce in the short term, a more effective level of spare capacity excluding these members is closer to 1.9 mb/d. OPEC President Daukoru mentioned during the Organisation's Caracas deliberations that he expects capacity to average 33 mb/d by the end of the year and that spare capacity should widen to in excess of 10% by that time. Again, the issue of 'useable' volumes is pertinent. Volumes from the 'disruption-prone' four may need to be excluded from this calculation. So too might recently evident market constraints on supplies of Iranian, Kuwaiti and Saudi Arabian heavy/sour barrels. Rather than offering steep discounts necessary to shift this oil, producers seem to prefer discretely altering supply as and when refiner demand dictates. Both these constraints on supply suggest that effective spare capacity could remain thin for some time to come.

OPEC Crude Production
(million barrels per day)

	1 July 2005 Target	May 2006 Production	Sustainable Production Capacity[1]	Spare Capacity vs May 2006 Production	Production vs. Target
Algeria	0.89	1.36	1.37	0.01	0.47
Indonesia	1.45	0.92	0.98	0.06	-0.53
Iran	4.11	3.84	4.00	0.16	-0.27
Kuwait[2]	2.25	2.51	2.60	0.09	0.26
Libya	1.50	1.70	1.70	0.00	0.20
Nigeria	2.31	2.27	2.60	0.34	-0.04
Qatar	0.73	0.83	0.83	0.01	0.10
Saudi Arabia[2]	9.10	9.35	10.80	1.45	0.25
UAE	2.44	2.56	2.70	0.15	0.11
Venezuela[3]	3.22	2.60	2.75	0.15	-0.62
Subtotal	**28.00**	**27.93**	**30.33**	**2.41**	**-0.07**
Iraq		1.91	2.50	0.60	
Total		**29.83**	**32.83**	**3.00**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.86)*	

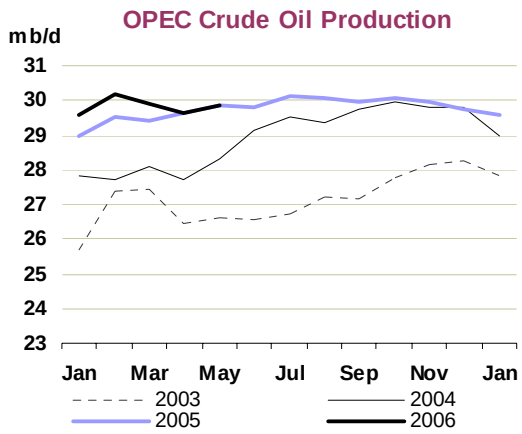
1 Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Includes Orinoco extra-heavy oil assumed at 630 kb/d in May

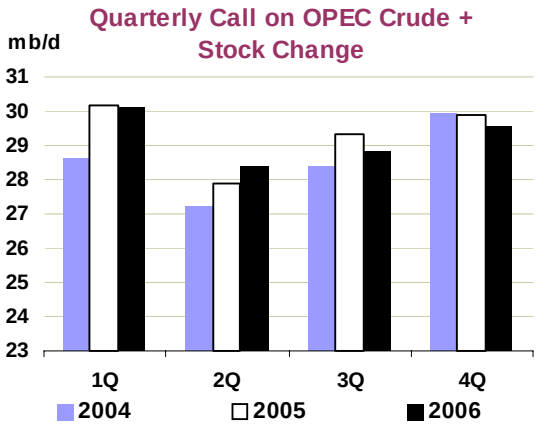
Ahead of the 1 June OPEC meeting in Caracas, the OPEC President said the cartel was not comfortable with current prices, and stressed in his opinion a delinking of market fundamentals and prices. Saudi Oil Minister Naimi too suggested the market was over-priced and over-supplied, with

fundamentals on their own justifying prices no higher than $50/bbl. However, OPEC delegates shied away from supporting the meeting's host, President Hugo Chavez, in his suggestion that this represented an obvious new official price floor.

In the end, OPEC met market expectations by leaving the official production target unchanged at 28.0 mb/d in Caracas. The persistence of $70/bbl marker crude prices, ongoing geopolitical risks, actual production outages affecting Iraq and Nigeria, plus the imminent start of the US hurricane season outweighed what, from OPEC's viewpoint, appear comfortable OECD inventory levels. The Conference further agreed to convene an Extraordinary Meeting prior to its next scheduled meeting (11 September in Vienna) should market conditions warrant. The group is concerned about, inter alia, evidence of easing geopolitical tensions, slowing demand growth and a sell-off by hedge funds.

There were reports that Angola, Sudan and Ecuador were invited to join (or rejoin in the case of the latter) the Organisation. Officially favourable, privately Angola is reportedly lukewarm to the idea, as it wishes to remain non-aligned and to avoid undermining the IOCs who have fuelled a 70% increase in oil production in the past four years. Membership fees and the potential complication of future renegotiation of quotas are two issues which could defer enlargement for now.





As noted last month, April saw a drop in **Iranian** crude supply, although the fall was much steeper than originally estimated. Sharply lower exports, at less than 2.2 mb/d, were some 300 kb/d below March levels. With refinery runs around 1.5 mb/d, this gives a total supply figure of 3.7 mb/d for April. Exports are thought to have recovered slightly to 2.3 mb/d in May, resulting in a supply figure of 3.8 mb/d. Nonetheless, Iran still faces problems marketing heavy/sour crude from the offshore Soroush/Nowruz fields and there were reports in May of 12-14 mb being held in offshore storage.

State oil company NIOC recently announced a term deal with an Indian refiner for 60 kb/d of Soroush/Nowruz and hopes also to sustain spot sales into Asia of 50 kb/d. However, this compares to production capacity at the fields of 190 kb/d and limited international buying interest has raised the prospect of a private sector refinery being built in Iran to process the crude.

Marketing problems were not restricted to Soroush/Nowruz and a combination of refinery maintenance and concerns over the nuclear standoff seem to have caused some Asian buyers to shy away from Iranian grades generally. Speculation continued to swirl around the Iranian nuclear issue. An apparent hardening of Iranian attitudes was signalled by the country's supreme leader Ayatollah Khamenei saying that wrong moves by the US could endanger regional energy flows. In addition to hitting crude sales, the Iranian political impasse also seems to have stalled progress on upstream expansion projects. There were reports that Iran has threatened to rescind Japanese company Inpex's involvement in the 250 kb/d Azadegan project unless development work is begun within three months. However, unfavourable contract terms were already stalling upstream progress in Iran before the political crisis took centre stage. A review of the much-criticised buy-back contracts is due to be completed by the autumn. Until then, even Iran's newly reduced capacity target of 4.6 mb/d by 2009 looks ambitious.

Saudi Arabian supply has also been revised down for April, to 9.25 mb/d, like Iran, on the basis of evidence of lower exports than original estimates showed. But preliminary indications for May supply point to a modest rise to 9.35 mb/d. Oil Minister Ali al-Naimi was reported as saying that production fell to as low as 9.1 mb/d in April, although whether this was a reference to monthly

average production is unclear. Nonetheless there have been clear indications of temporarily weaker demand for Saudi crude, as global refinery outages average in excess of 3 mb/d in the second quarter. Substantial, but offsetting revisions have also been made to Saudi supply for 2004 and 2005. Crude supply is revised down by an average 0.1 mb/d for both years (but by 0.5 mb/d for first quarter 2004). Account has been taken of the latest reported Aramco annual production numbers and Joint Oil Data Initiative (JODI) data, both lower than this Report's estimates for 2004 and 2005. With OPEC generally, and Saudi Arabia in particular, at this time stressing an ability to supply the market with all necessary crude, production seems unlikely to have been running substantially ahead of officially reported levels. Pre-2004 estimates are left unchanged. Estimates for contemporary months' Saudi Arabian supply, as for other OPEC producers, continue to be made from best available information, be that official data, tanker tracking indications or other market intelligence.

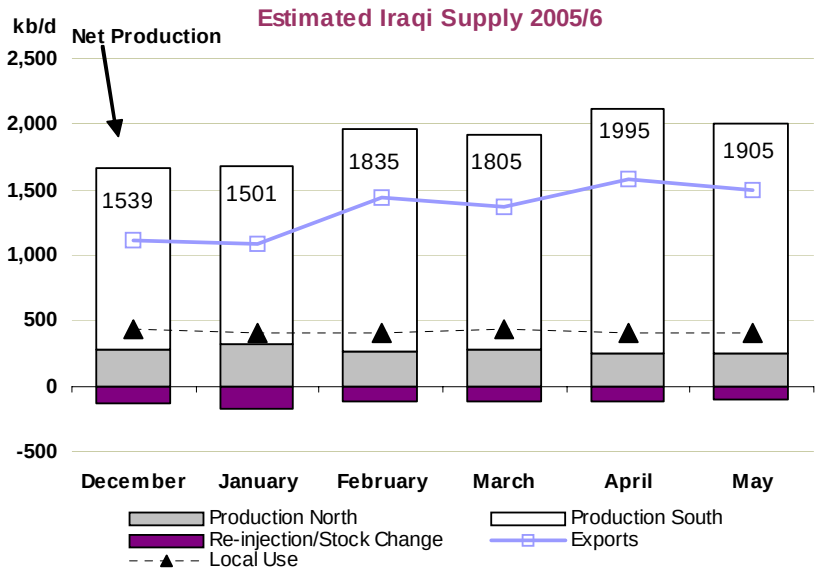
While Saudi crude supply has been revised down, an upward revision of some 100 kb/d is applied to gas liquids supply for 2004-2006 (comprising ethane, NGL and condensate), again after examination of recently reported Aramco annual data. Adjustments to pre-2004 gas liquids data are minimal.

There was further evidence in May of the Kingdom securing contracts for additional drilling equipment in support of capacity expansion plans and increased exploration. Crude capacity is targeted to reach 12.5 mb/d by 2009. Aramco is also aiming for exploration and enhanced recovery to boost current in place resources of 716 billion barrels to some 900 billion barrels by 2025.

Nigeria's different producing areas continue to exhibit divergent dynamics. Output in the Niger Delta area and shallow offshore continues to be prone to security related outages. Over 500 kb/d of production here remains shut-in following attacks by local groups demanding greater autonomy and a higher share of oil revenues. Production outages due to pipeline attacks and abductions of foreign oil workers began in December and have hit Royal Dutch Shell particularly hard. Bonny, Forcados and EA field facilities remain shut in to a greater or lesser degree until an improved security situation allows damage assessments to be made. This appears to fly in the face of claims by Nigerian Oil Minister Daukoru at end-May that one third of shut-in production would be back within two weeks.

In contrast, deepwater production has been rising steadily, with ExxonMobil's Erha field now producing 150 kb/d and Shell's Bonga at 200 kb/d. Higher Erha supply underpins the assessed 135 kb/d rise in Nigerian supply in May to 2.27 mb/d. Before the onset of the latest Niger Delta unrest, Nigerian crude production capacity was thought likely to reach 2.8 mb/d by mid-2006 and 3.0 mb/d by the end of the year. However, until assessments of Niger Delta facilities are completed, this Report has held Nigerian capacity steady at 2.6 mb/d.

Iraqi supply slipped by 90 kb/d from a downward revised April level of 2.0 mb/d in May. Net production (excluding field reinjection or deliveries into storage) came to 1.9 mb/d, comprising 1.5 mb/d of exports and just over 400 kb/d of domestic consumption. 1.49 mb/d of exports derived from liftings at the southern ports of Basra and Khor al-Amaya, while cross border deliveries to Syria recommenced in April and averaged 10 kb/d for May. Liftings of Iraqi crude from Ceyhan on the Mediterranean remain stalled as flows on the northerly export line from Kirkuk are halted following earlier attacks. Iraqi crude in storage at Ceyhan amounts to 2-3 mb presently.



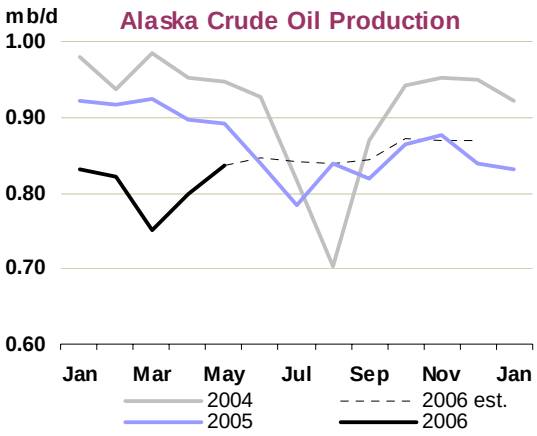
Tanker loading schedules for June suggest exports pushing up towards 1.6 mb/d again. However, a fire on 26 May at the Khor al-Amaya terminal, which normally handles smaller vessels, and which has exported some 50 kb/d recently, was still disrupting exports at the time of writing. There are also concerns surrounding the deteriorating political situation in the south of the country with threats by Shi'ite factions to disrupt oil sector operations. This underpinned the state of emergency declared for the Basrah area by the new Prime Minister on 31 May.

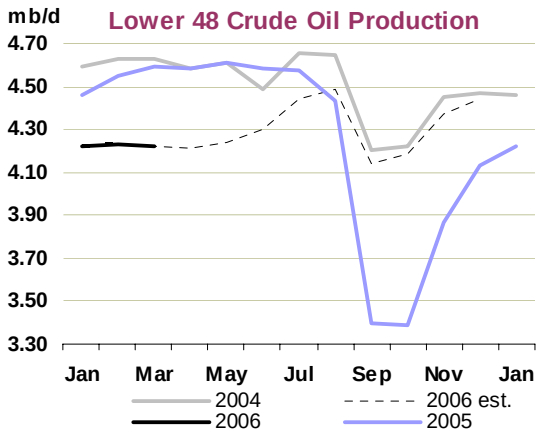
OECD

North America

US – Alaska May actual, others estimated: Estimated US oil supply for May was up 90 kb/d versus April, at 7.26 mb/d. Recovery was evident from both Alaska and the US Gulf of Mexico (GOM) in the aftermath of pipeline outages and storm damage respectively. In all, US supply has been revised down by 20 kb/d for 2006, largely due to weaker Alaskan spring performance, followed by a lower GOM profile in the second half of 2006. Weaker NGL supply running through 2006 is countered by a now-higher production level for ethanol and other blending components. US crude supply for 2006 now averages 5.1 mb/d, down 25 kb/d from 2005's hurricane affected total. However, this apparently weak performance is wholly concentrated in the first half of the year, when production averages some 400 kb/d below 2005 levels. Year-on-year growth recovers to 480 kb/d by fourth quarter, assuming a reversion to five-year average hurricane outages.

Alaskan crude supply data for April and May came in 35-55 kb/d below the estimates contained in last month's Report, with Prudhoe Bay pipeline outages accounting for the bulk of April's revision. BP continues to suffer from pipeline corrosion problems, likely to impede Prudhoe Bay production for a while to come. Facilities at Milne Point, Lisburne and Northstar also suffered outages in May. Satellite developments at the West Sak and Alpine fields are the only likely increments to production this year, with overall Alaskan crude supply seen repeating 2005's 40 kb/d decline in 2006, to reach 825 kb/d. State politicians are mulling provisions that would boost profit taxes at higher oil price levels, while allowing investment tax credits. Oil companies are reportedly ready to accept higher tax levels in return for state approval for an ambitious 5 bcf/d TransAlaska gas pipeline project.

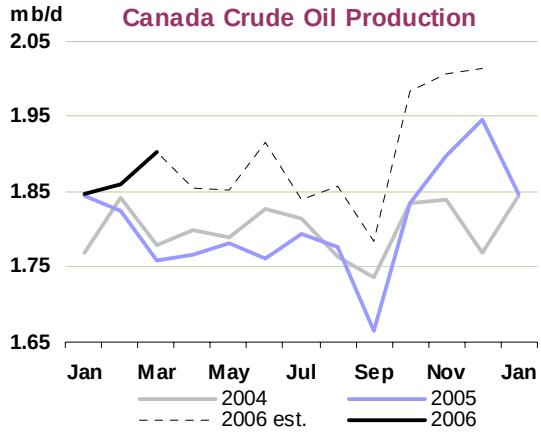


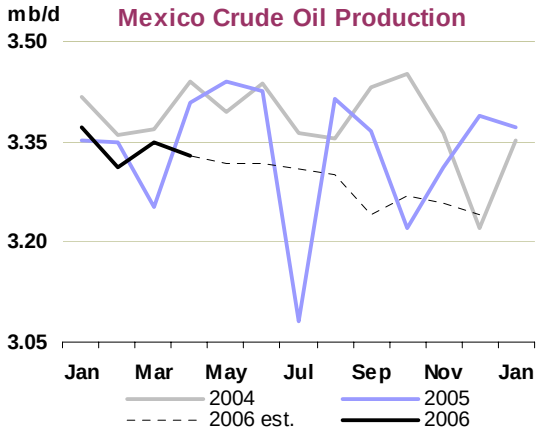


Latest data from the US Minerals Management Service (MMS) showed 228 kb/d of GOM crude output shut in on 1 June in the aftermath of the 2005 hurricane season. This compares with outages of 324 kb/d reported on 3 May. Resumed production from Shell's Mars production system underpinned the recovery, with full production of 140 kb/d expected to be regained by late June. Total has also reported that 15 kb/d of Matterhorn oil production will restart from mid-June after pipeline repairs are completed. April and May weekly US production data suggest that this Report's estimate of 1.25 mb/d GOM production may be on the low side, although we await firmer monthly data before making any adjustments. However, forecast production for the second half of 2006 from GOM has been revised down by over 50 kb/d due to potential slippage at two new field start-ups, Atlantis and Thunder Horse. Testing at BP's 250 kb/d Thunder Horse facilities revealed cracks in subsea manifolds and this Report assumes production start is deferred from August to November as a result. Overall GOM production recovery is assumed to be modest for 2006, production averaging 1.3 mb/d compared to 1.25 mb/d last year. However, fourth quarter supply at 1.34 mb/d stands some 0.5 mb/d above last year's levels.

Canada – Newfoundland April actual, others March actual: A number of adjustments to individual components of Canadian oil production for 2006 leave annual average production largely unchanged at 3.27 mb/d. Growth versus 2005 averages 215 kb/d, centred on synthetic crude, and to a lesser extent bitumen and light offshore east coast crude supply. Despite a largely unchanged annual total, second quarter production is revised down by 75 kb/d, while output in the second half of the year is revised up by 45 kb/d. The second quarter reduction is concentrated on the offshore Terra Nova field, which is now unlikely to re-enter service until after extensive maintenance work running through September. The field had been due to operate at reduced rates in second quarter but production has now been completely shuttered following power generator problems. Offshore Newfoundland production is however revised up by 10 kb/d in second half 2006 reflecting stronger expectations for the newly-started White Rose field.

Forecast production in the second half is lifted by a 50 kb/d upward revision for synthetic crude supply. Syncrude Canada in May reduced forecast production from its upgrader unit due to problems at its new coker. However, it now appears that the new facilities, when repaired in June, will allow Syncrude to operate at close to 350 kb/d capacity straight away, whereas this Report previously assumed a phased build-up to capacity. Oil sands developments underpin the latest forecast for Canadian production from the Canadian Association of Petroleum Producers (CAPP). CAPP envisages production rising by over 2 mb/d by 2015.





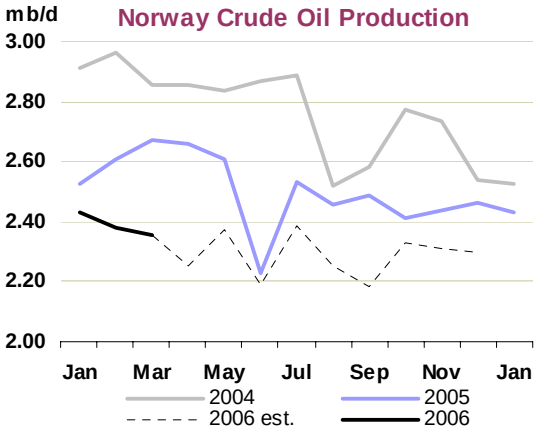
Mexico – April actual: Official production data from state company Pemex showed a rise of 20 kb/d for crude and 10 kb/d for NGL versus March, reaching 3.37 mb/d and 440 kb/d respectively. However, this Report has trimmed expectations for crude production in 2006 overall by 30 kb/d, to 3.27 mb/d. It is increasingly difficult to see offsets for declining Cantarell field production before 2007. More immediately, the campaign for the 2 July Presidential election has seen oil sector reform become an issue. The reversal of production decline and falling reserves is expected to require tax reform in order to boost Pemex's budget, and an opening of the upstream sector to foreign company participation in deepwater hydrocarbon developments.

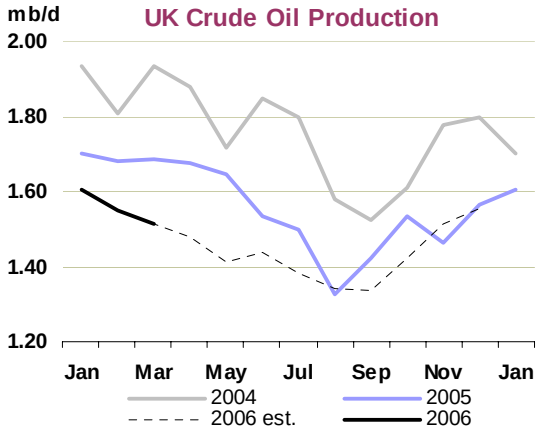
North Sea

UK – March actual: UK offshore crude production for 2006 is revised down by 15 kb/d for 2006 to 1.45 mb/d, largely due to now-weaker second quarter West of Shetlands output. Data for the Clair field, in production since early 2005, have shown a slower than anticipated build towards 60 kb/d capacity. However, offshore loaded crude supply from fields including Gryphon and Captain is now running at higher levels and is seen providing an offset in the second half of 2006. Loading schedules point to a further seasonal decline in offshore production through mid-year, with a rebound expected thereafter. Offshore crude supply falls by 100 kb/d in 2006 to 1.45 mb/d, with NGL and onshore crude combined remaining largely stable at 280 kb/d.

Norway – March actual, April provisional: This Report sees a modest 15 kb/d upward revision to Norwegian liquids production for 2006 to 2.87 mb/d. This compares to the latest, and downward-revised, Ministry of Petroleum and Energy forecast of 2.8 mb/d. Scheduled field maintenance will curb Norwegian supply most notably in April, June and September. Condensate developments represent the main increments to Norwegian supply in 2006. With only limited satellite

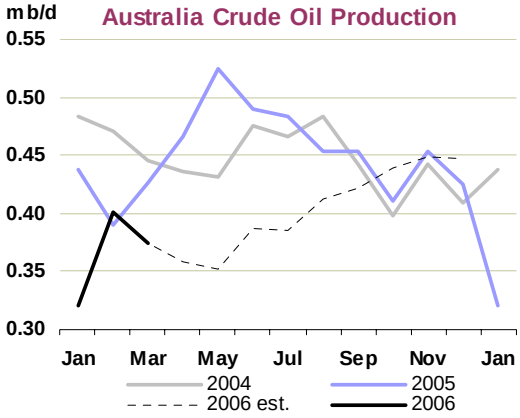
crude developments entering service this year, crude output sustains a similar sharp decline to that seen in 2005. However, a number of new crude developments in the Sleipner and Frigg systems in 2007 are likely to stabilise production.





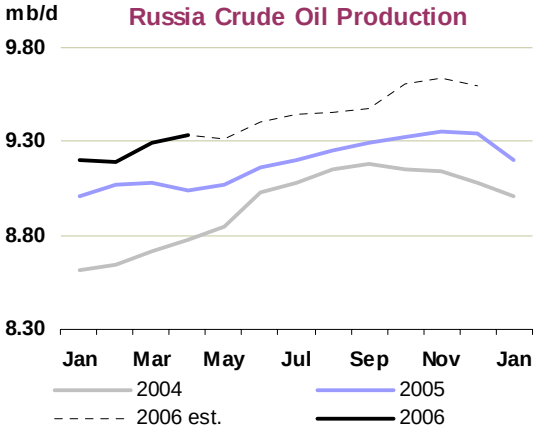
Pacific

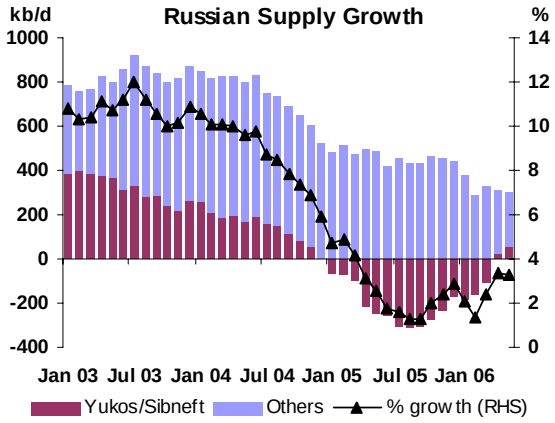
Australia – March actual: While March crude supply broadly matched projected levels, NGL supply was less than expected. April/May crude production is likely to have remained depressed at around 350 kb/d, some 140 kb/d below a year earlier, as storm outages and field underperformance affected the offshore Carnarvon Basin in particular. Gradual production recovery is expected beyond mid-year, although total liquids output for 2006 of 490 kb/d is some 55 kb/d below the 2005 average. Specific field developments in May were mixed, with Roc Oil beginning production at the 10 kb/d Cliff Head field. However, at the end of May, Woodside announced a delay to the third quarter for the start-up at the 100 kb/d Enfield project due to damage incurred during field commissioning. This Report had already assumed a 3Q start, so there is no direct impact on forecast 2006 supply. Despite a weak 2006, Australian production is expected to rebound in 2007 and 2008 by nearly 200 kb/d, based on a number of new field developments offshore northwestern Australia.



Former Soviet Union (FSU)

Russia – April actual, May provisional: April and May production data came in respectively 15 kb/d and 55 kb/d higher than anticipated. Higher baseline production for Rosneft (Yuganskneftegaz), Lukoil and Sibneft are carried through the 2006 forecast. Significantly, former Yukos and Sibneft producing assets, which were responsible for the sharp slow down in growth since mid-2004, have now begun to show collective growth again. Total 2006 Russian production is now forecast at 9.75 mb/d, 25 kb/d higher than last month. Growth this year amounts to 2.8%, similar to 2005 but well below the 9% average for 2000-2004. Upside potential exists for the Russian forecast from foreign joint venture production such as Shell's Salym project, and Exxon's Sakhalin 1. Initial exports from the De Kastri terminal, which were announced in May, pave the way for a rise in output at the latter project to 200 kb/d by late 2006 and 250 kb/d later on. This forecast also takes a deliberately cautious view on production from Yukos' remaining assets until the company's financial fate is resolved.





Russia's Economy Ministry came out with a conservative forecast for oil production through 2009 in early June. Output is seen reaching a maximum of 10.2 mb/d, representing average yearly growth of 1.5%. However, while a sharp slowdown in growth from the early-decade surge is justified by recent performance, the Economy Ministry has traditionally forecast growth well below outturn. Recent announcements of planned mid-term production by Lukoil, Gazprom and Surgutneftegaz also suggest stronger growth, although late-decade production levels may indeed be constrained by delays in the construction of major new export capacity. Plans to shift the emphasis of exports away from crude and towards oil products could also act as an impediment to crude production growth unless progress on upgrading refineries and expanding products export infrastructure is also accelerated.

FSU Net Exports of Crude & Petroleum Products

(million barrels per day)

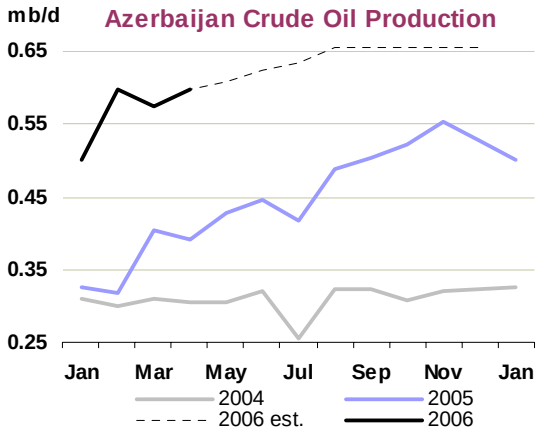
	2004	2005	2Q2005	3Q2005	4Q2005	1Q2006	Feb-06	Mar-06	Apr-06	Latest month vs. Mar-06	Latest month vs. Apr-05
Crude											
Black Sea	2.20	2.27	2.38	2.30	2.23	2.25	2.28	2.46	2.15	-0.31	-0.24
Baltic	1.51	1.59	1.61	1.57	1.55	1.54	1.56	1.58	1.65	0.07	0.02
Artic/FarEast	0.25	0.19	0.19	0.22	0.17	0.10	0.07	0.13	0.09	-0.04	-0.08
Crude Seaborne	3.96	4.05	4.18	4.08	3.95	3.89	3.90	4.16	3.88	-0.28	-0.30
Druzba Pipeline	1.10	1.15	1.10	1.14	1.23	1.20	1.21	1.18	1.12	-0.06	0.03
Other Routes	0.23	0.25	0.26	0.24	0.26	0.31	0.33	0.32	0.40	0.08	0.18
Total Crude Exports	5.29	5.45	5.54	5.46	5.44	5.39	5.45	5.67	5.41	-0.27	-0.09
Of Which: Transneft	3.76	4.20	4.26	4.26	4.32	4.31	4.40	4.37	4.23	-0.14	0.08
Products											
Fuel oil	0.90	0.93	0.91	1.02	1.04	0.87	0.73	0.95	1.14	0.19	0.37
Gasoil	0.84	0.87	0.80	0.85	0.95	1.01	1.04	0.98	0.98	0.00	0.07
Other Products	0.46	0.58	0.56	0.58	0.60	0.60	0.60	0.57	0.68	0.12	0.11
Total Product	2.19	2.38	2.27	2.45	2.58	2.47	2.37	2.50	2.80	0.30	0.55
Total Exports	7.48	7.83	7.81	7.91	8.02	7.87	7.82	8.17	8.21	0.04	0.46
Imports	0.01	0.02	0.01	0.02	0.02	0.02	0.01	0.02	0.02	0.00	0.00
Net Exports	7.47	7.81	7.80	7.89	8.00	7.85	7.80	8.16	8.19	0.04	0.46

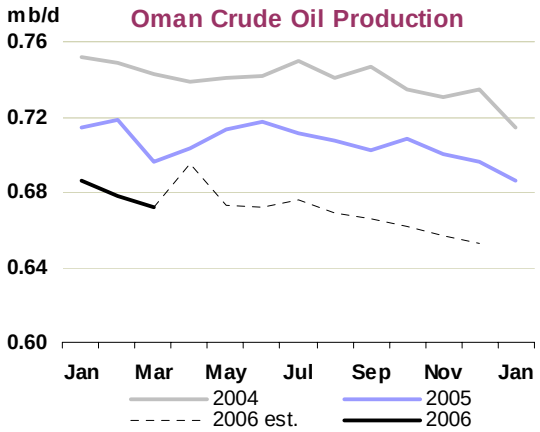
Sources: Petro-Logistics, IEA estimates

As anticipated last month, FSU crude exports in April fell on lower Black Sea liftings but this was compensated by higher products exports. Taken together, net exports levelled off at just under 8.2 mb/d, albeit some 450 kb/d above levels pf a year ago. Preliminary data show markedly higher Russian crude exports in May, up by between 300-400 kb/d. Attempts to beat a 7% increase in crude export duties effective 1 June therefore were more pronounced than suggested in last month's Report. Loading schedules for Baltic and Black Sea ports for June suggest a levelling off in crude exports close to May levels, although it is possible that non-Russian exports may have risen further.

Mixed news emerged in May on medium-term prospects for Russian crude exports. Transneft announced a northward re-routing of the proposed Far Eastern pipeline away from the ecologically sensitive Lake Baikal and also closer to East Siberian oilfields, production from which it will potentially serve. In the shorter term, Ukraine has announced that it intends to cease reverse flows of some 115 kb/d of Russian crude along the Odessa-Brody pipeline in 2007.

Azerbaijan – April actual: Rising production of Azeri Light crude from the ACG field complex in the Caspian continues to drive overall Azerbiajan supply. Despite a brief dip in output from the Chirag field in March, ACG output is expected to rise further towards 500 kb/d by late 2006 now that commercial deliveries via the Baku-Tbilisi-Ceyhan (BTC) pipeline have begun. The first cargo was lifted from Ceyhan and sailed on 4 June. Total BTC pipeline flow is targeted to approach half of its 1.0 mb/d capacity by the fourth quarter, from current levels of 150-200 kb/d. A total Azerbaijan liquids production level of 660 kb/d assumed for fourth quarter 2006 is likely a conservative estimate. Although incremental condensate volumes from the Shah Deniz gas project are possible from third quarter, these are excluded from the current forecast owing to some uncertainty over the timing of field commissioning. Our approach is to err on the side of caution before including projects for which precise start-up date may be uncertain. Stronger ACG build-up and on-schedule Shah Deniz start up therefore represent potential upside for the current forecast.





Other Non-OPEC

Oman – March actual: Data from the Petroleum Development Oman (PDO) annual report suggest an upward revision of some 15 kb/d for total Omani liquids supply in 2005. This is now seen averaging some 790 kb/d, with a further decline to 750 kb/d expected for 2006. Despite the prospect of continued short-term decline, high crude prices have encouraged efforts in geologically complex fields which otherwise suffer from prohibitively high production costs. Substantial investment is being made in enhanced oil recovery, aimed at leveling off the decline in national production by the end of the decade. Development at the Mukhaizna field by Occidental aims to boost production there from 10 kb/d to 150 kb/d by 2012.

Revisions to Other Non-OPEC Estimates

Revisions to other non-OPEC supply tend towards the downside for 2006, with Angola, Brazil, Chad, India, Malaysia and Mauritania seeing downward revisions of 10-15 kb/d each. A longer than expected outage is now underway at **Angola's** Girassol field. Start-up for the Dalia field has also been delayed to October, although Angola still remains one of the key contributors to production growth for 2006. Production problems at the newly-started Chinguetti field offshore **Mauritania** could hold output at a below par 45 kb/d until fourth quarter. Recovery at **India's** Bombay High offshore field after fire damage in 2005 now looks less pronounced than previously thought, while labour strikes cut into May output onshore Assam.

On the upside, 10-20 kb/d each has been added to forecast 2006 production for Sudan, Kazakhstan and Vietnam. The **Sudan** forecast now includes initial volumes from the Thar Jath field, where production is expected to eventually reach 80 kb/d. **Vietnamese** supply has suffered from declining output at the baseload Bach Ho field, but national production is now seen levelling off in 2006 before new field developments begin to make an impact in 2007/2008.

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	14.09	14.33	0.24	14.09	14.29	0.19	0.00	-0.04	-0.04
Europe	5.64	5.40	-0.24	5.64	5.41	-0.24	0.00	0.01	0.01
Pacific	0.58	0.55	-0.04	0.58	0.53	-0.05	0.00	-0.02	-0.02
Total OECD	**20.31**	**20.27**	**-0.04**	**20.32**	**20.22**	**-0.10**	**0.00**	**-0.05**	**-0.05**
Former USSR	11.63	12.04	0.41	11.64	12.09	0.45	0.00	0.05	0.04
Europe	0.16	0.15	-0.01	0.16	0.15	-0.01	0.00	-0.01	-0.01
China	3.62	3.71	0.09	3.62	3.70	0.09	0.00	-0.01	-0.01
Other Asia	2.73	2.79	0.07	2.73	2.78	0.05	0.00	-0.01	-0.01
Latin America	4.29	4.48	0.19	4.29	4.46	0.17	0.00	-0.02	-0.02
Middle East	1.83	1.79	-0.04	1.86	1.80	-0.06	0.03	0.01	-0.02
Africa	3.67	4.14	0.47	3.67	4.13	0.45	0.00	-0.02	-0.02
Total Non-OECD	**27.93**	**29.11**	**1.18**	**27.96**	**29.11**	**1.14**	**0.04**	**0.00**	**-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	**50.10**	**51.28**	**1.18**	**50.14**	**51.23**	**1.08**	**0.04**	**-0.06**	**-0.09**

OMR = Oil Market Report

OECD STOCKS

Summary

- **OECD total industry oil stocks** built by 17 mb in April to 2631 mb or 58 mb higher than last year. The increase was centred in crude oil stocks in the Pacific and to a lesser extent in the US, where refinery maintenance and unscheduled outages lowered crude demand. Lower year-on-year refinery output was offset by seasonally weakening demand heading into the second quarter, leading to a build in total product inventories. Forward demand cover came to 54 days for the OECD as a whole, one day above last year and on a par with March.

Preliminary Industry Stock Change in April 2006 and First Quarter 2006

(million barrels per day)

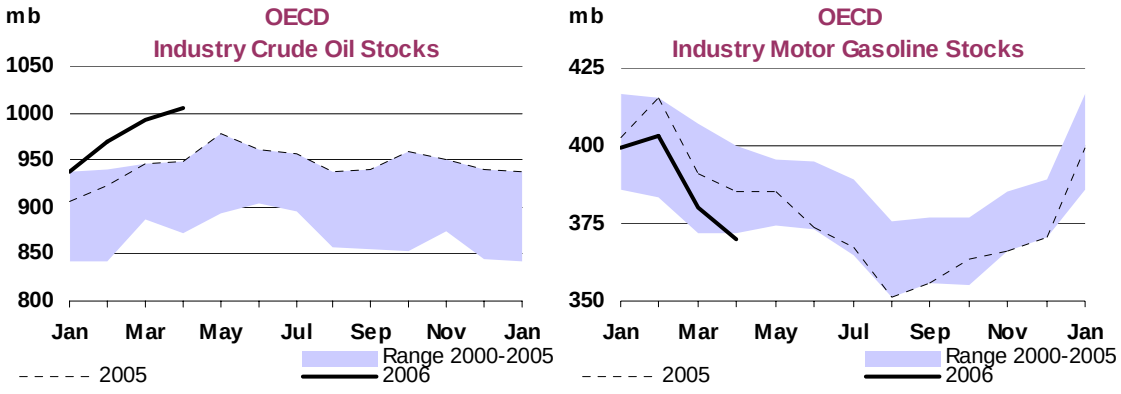
	April (preliminary)				*First Quarter 2006*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.12**	**-0.05**	**0.36**	**0.43**	**0.22**	**0.21**	**0.14**	**0.57**
Gasoline	-0.25	-0.11	0.00	-0.36	0.08	0.00	0.03	0.11
Distillates	-0.23	0.17	-0.09	-0.15	-0.21	-0.11	0.01	-0.31
Residual Fuel Oil	0.02	0.16	0.09	0.27	0.07	-0.04	-0.01	0.01
Other Products	0.29	0.00	0.08	0.37	-0.18	-0.01	0.01	-0.19
Total Products	**-0.17**	**0.22**	**0.09**	**0.14**	**-0.24**	**-0.17**	**0.03**	**-0.37**
Other Oils[1]	0.02	-0.03	0.02	0.01	-0.03	0.05	0.01	0.03
Total Oil	**-0.03**	**0.14**	**0.46**	**0.57**	**-0.04**	**0.09**	**0.18**	**0.24**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude stocks** rose by 13 mb to 1005 mb in April, their highest level in more than 20 years. On a days of forward demand basis however, crude stock cover held at 20.5 days, only one day higher than last year. Most of the build was centred in the Pacific where lower crude demand, on account of refinery turnarounds, combined with relatively high imports pushed stocks higher. Storing crude oil has also been supported by favourable economics afforded by a steep contango on future markets.

- **OECD industry gasoline stocks** fell by 11 mb in April to 370 mb, or 16 mb below last year. The stock draw was centred in the US where weaker imports and reduced gasoline production lowered supplies. Days of OECD forward demand cover for gasoline continue to trend below the five-year range at 24 days. The lower cover has in part been prompted by a turnover of US inventories as refiners cleared tanks making room for summer grade and MTBE-free material. In May, US-50 gasoline stocks built by more than 7 mb despite slowly recovering crude runs and backwardated futures as imports, fixed on earlier strong price differentials, reached record highs.

- **OECD industry middle distillate stocks** posted a modest 4 mb decline in April to 498 mb, but remain at the upper end of their five-year range. The US and the Pacific saw small draws as weaker refinery output was partly offset by seasonally lower demand. Europe bucked this trend as the contango in IPE gasoil futures favoured moving product into storage, attracting higher Russian imports. This trend persisted in May leading to higher inventories in independent ARA storage.

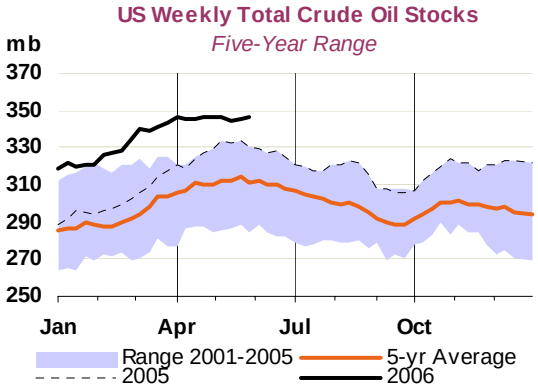


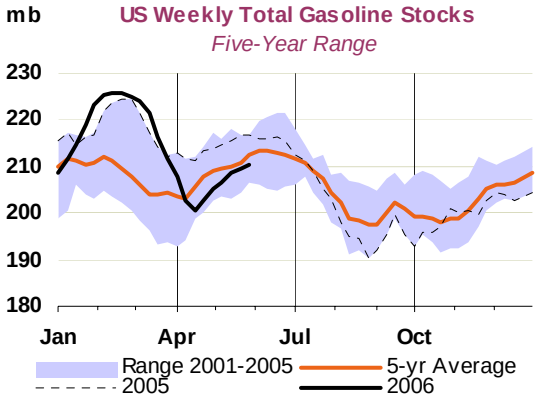
OECD Industry Stock Changes in April 2006

OECD North America

North American crude oil stocks built by 4 mb in April to 480 mb on relative weakness in US runs. Though imports were lower, US throughputs were depressed on a seasonal basis, trending 0.5 mb/d below April last year.

In May, US-50 crude stocks moved broadly sideways as an increase in imports outpaced a slow recovery in refining activity. Crude stocks at Cushing, the delivery point for the NYMEX WTI contract, have come down from recent highs, but at 23.2 mb remain well above historical norms. Favourable storage economics continue to be supported by the persistent contango on NYMEX crude futures. A strengthening WTI premium to Brent in May reopened the spot arbitrage window for June deliveries when demand for light-sweet crudes seasonally picks up to meet summer demand.





North American product inventories fell by 5 mb in April to 631 mb, or 4 mb below last year. Draws in gasoline and middle distillates were partly offset by increases in 'other products'. US gasoline stocks fell by 8 mb in April. In addition to refinery maintenance curbing domestic output, tanks continued to be turned over to make room from summer grade material as well as MTBE-free blendstocks. Stocks of RBOB blendstocks were up by more than 10 mb. Futures also provided incentives to destock gasoline, holding in backwardation in this period.

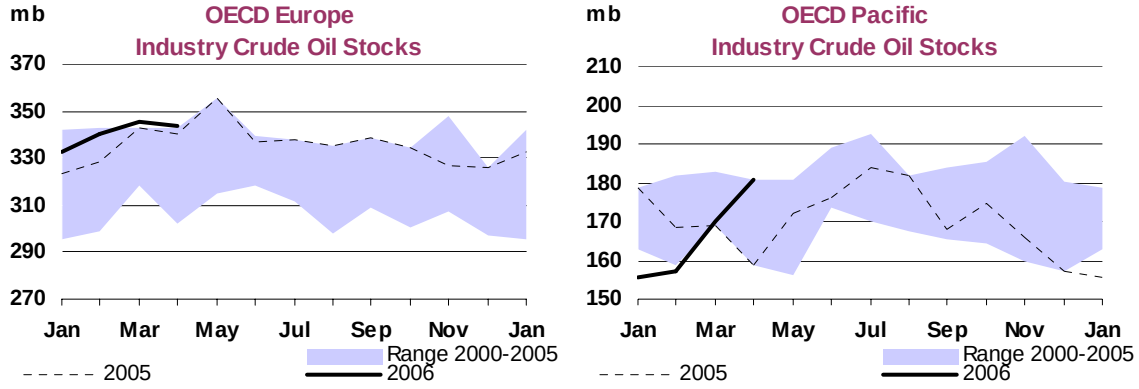
In May, US-50 gasoline stocks returned to their five-year average. Inventories built by more than 7 mb, mainly on record imports. Both finished gasoline and blending components increased, although rising RBOB stocks were mostly offset by declines in other blending components. Gasoline imports averaged 1.5 mb/d for the last four weeks in May, more than 50% higher than in the same period last year. Based on preliminary weekly data, gasoline demand averaged 9.33 mb/d in the same period, 0.8% lower than the previous year. A large year-on-year increase in demand for 'other oils', which include ethanol, could however suggest stronger gasoline demand than implied by preliminary weekly data. As such, the build in May could be lower than stated.

US-50 middle distillates fell by 7 mb in April and then built by 6 mb in May. The increase was centred in ultra-low sulphur diesel (ULSD) stocks in the anticipation of new sulphur regulations taking effect on 1 June. The new rules by the Environmental Protection Agency (EPA) stipulate that refiners, terminal operators and retailers must replace more than 80% of on-road diesel with a sulphur content of no more than 15 ppm, down from 500 ppm. However, concerns over contamination and supply shortages have lead the EPA to give terminal operators and retailers extended deadlines for implementation, until 1 September and 15 October respectively. Regular diesel stocks (15-500 ppm) fell by 4.5 mb on lower production and preparation of storage space for ULSD. Heating oil stocks increased in line with seasonal trends, supported by a widening contango on futures markets encouraging stock building into the third quarter.

OECD Europe

European crude stocks nudged lower (-1 mb) in April as stock draws in the Netherlands (-3 mb) and Germany (-3 mb) were offset by increases elsewhere. Crude availability in Europe remained high in April, trending off an upwardly revised March base. Though runs were higher, a sizable amount of offline capacity due to turnarounds limited the draw. While Norwegian supplies were lower due to field maintenance, limited spot arbitrage opportunities, on tighter WTI/Brent and wider Brent/Dubai spreads, trapped regional crudes. It is also likely that some West African cargoes were diverted into Europe on thin US interest.

European product inventories built by 7 mb in April with the Netherlands, Germany, France and the UK all posting gains. Total product inventories ended April at 537 mb, 6 mb below last year. The largest increase came in middle distillates, as favourable crack spreads in Northwest Europe led refiners to maximize production, notably of diesel (ULSD). Preliminary indications for inland deliveries also show unexpectedly weak diesel demand in key consuming countries. Fuel oil inventories built in April following record Russian exports and limited arbitrage potential to Asian markets of high-sulphur material. Gasoline stocks fell as high exports out of the region offset structurally weak gasoline demand.



OECD Pacific

In the Pacific, crude stocks built in both Japan and Korea in April and inventories rebounded to the upper end of their five-year range. In Korea, refiners saw reduced crude requirements as they entered seasonal maintenance. At the same time, imports remained high as evidenced by a 6 mb build in volumes held on tankers at port. Korea's planned maintenance continues through the summer months and is scheduled to peak in July.

Japanese crude stocks built by 5 mb in April and, according to weekly data from the Petroleum Association of Japan, onshore crude stocks continued to build in May. Scheduled and unscheduled outages reduced throughputs to 69% of capacity in the first week of June. Crude purchased by power utilities also fell back in April to the lowest level since November in line with seasonally lower electricity demand.

OECD Pacific product inventories ended April at 173 mb, 3 mb above March and 9 mb higher than last year. Lower refinery production in Japan and Korea was more than offset by seasonally lower demand, leading to higher stocks. Korean exports of jet fuel, diesel and gasoline continued at robust levels with arbitrage to the US West Coast open for most of the period. Pacific fuel oil inventories also built following lower inland deliveries and ample regional supplies. In Japan, total products rose by 1 mb in April. Lower distillate and gasoline stocks were offset by increases to fuel oil and other product stocks. Lower demand for LPG and naphtha supported the build in other products. In May, Japanese stocks built for all products bar gasoline, despite lower runs.

OECD Inventory Position at End- April and Revisions to Preliminary Data

OECD total oil inventories built by 17 mb in April to 2631 mb, or 58 mb above last year. On a year-on-year comparison basis, only European total oil stocks were lower than the previous year, although North American product stocks were also trending below year-ago levels. Days of forward demand cover came to 54 for the OECD as a whole, one day above last year and on par with March. On a regional basis, cover came to 48 days for North America, 63 days for Europe and 53 days for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for April 2006

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**31.3**	**3.9**	**22.2**	**57.4**	**Total Oil**	**0.5**	**-0.5**	**3.7**	**0.7**
Total Products	-4.0	-6.3	8.8	-1.5	*Versus 2004*	2.5	2.3	1.5	2.2
Other Oils[1]	2.4	-1.6	1.0	1.9	*Versus 2003*	2.1	1.8	1.4	1.7
Total Oil	**29.7**	**-4.0**	**32.0**	**57.7**	**Total Products**	**-0.5**	**-0.6**	**1.0**	**-0.3**
Versus 2004	93.8	39.2	18.4	151.4	*Versus 2004*	0.8	1.8	0.7	1.1
Versus 2003	128.9	28.4	12.2	169.5	*Versus 2003*	0.1	1.7	-0.3	0.4

1 includes feedstocks, NGLs and other hydrocarbons

Revisions versus 12 May 2006 Oil Market Report
(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Feb 06	Mar 06	Feb 06	Mar 06	Feb 06	Mar 06	Feb 06	Mar 06
Crude Oil	**8.7**	**1.1**	**3.3**	**5.9**	**-0.2**	**7.2**	**11.8**	**14.2**
Gasoline	0.0	-1.6	1.3	-2.6	0.7	0.6	2.0	-3.6
Distillates	0.0	-4.4	-1.7	-7.9	0.6	0.3	-1.1	-12.0
Residual Fuel Oil	0.0	-0.9	-0.3	-0.5	0.1	-0.1	-0.2	-1.5
Other Products	0.0	-1.1	-0.5	-1.0	-0.1	-0.4	-0.5	-2.5
Total Products	**0.0**	**-8.1**	**-1.1**	**-11.9**	**1.4**	**0.4**	**0.3**	**-19.7**
Other Oils[1]	0.0	-2.6	1.3	2.6	0.1	-0.4	1.5	-0.4
Total Oil	**8.7**	**-9.6**	**3.5**	**-3.5**	**1.4**	**7.2**	**13.5**	**-5.9**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

Preliminary March stock data for OECD countries were revised down by 6 mb with offsetting moves in crude and products. Crude stocks were revised up in all regions, lifting preliminary estimates 14 mb higher. Japanese crude stocks were revised up by 8 mb once stocks held in tankers at ports were included, while European crude inventories were revised higher by 6 mb. In North America, a 9 mb downward revision to US crude stocks partly offset a larger revision to Canadian preliminary estimates. Total product inventories were revised down by a total of 20 mb for March, the largest revisions being in middle distillate stocks in Europe and in North America. Revisions to Canadian, and to a lesser extent European, crude data for February were largely responsible for lifting the February baseline 14 mb higher.

Recent Developments in ARA Independent Storage

Inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area increased in May, with gains seen mostly in gasoil and fuel oil inventories. Gasoline stocks initially fell on record shipments to the US, Canada, France, the Middle East and West Africa. Nigerian import requirements have been trending above regular volumes since the 125 kb/d Warri refinery was shut after militants attacked the Chanomi Creek crude pipeline feeding the plant. In Ghana, import demand was also higher than normal due to refinery maintenance. At the end of the month, gasoline stocks rebounded as inflows from the UK, Norway, France, Italy and Sweden offset continued high exports.

Gasoil inventories continued to build in May, albeit at a slower pace than in April, and continue to trend above their five-year range. Favourable distillate cracks encouraged refiners to maximize output while consumer demand remained limited due to strong outright prices. Preliminary data show that FSU exports fell back somewhat from the high levels seen in April following a 6 May increase of export duties. In addition, domestic demand in FSU countries normally picks up at this time of year due to higher agricultural demand. The persistence of the contango on IPE gasoil futures further encouraged traders to move product into storage.

Fuel oil stocks saw sharp swings in May. At mid-month stocks fell by almost 50% in a single week as several VLCC shipments to Singapore cleared supplies. Stocks rebounded the following week as the arbitrage window to Asia closed while inflows from FSU continued apace.

Recent Developments in Singapore Stocks

Singapore product inventories, as surveyed by International Enterprise, nudged lower in May as draws in residues and, to a lesser extent, light distillates outpaced building middle distillates. Light distillates, including gasoline and naphtha, fell due to lower regional supplies and emerging spot demand from Vietnam, Indonesia and India. In Japan and Korea, refinery maintenance and unscheduled outages reduced refinery production, while Korean exports to the US continued apace. Chinese gasoline exports were lower in May as domestic retail prices were increased.

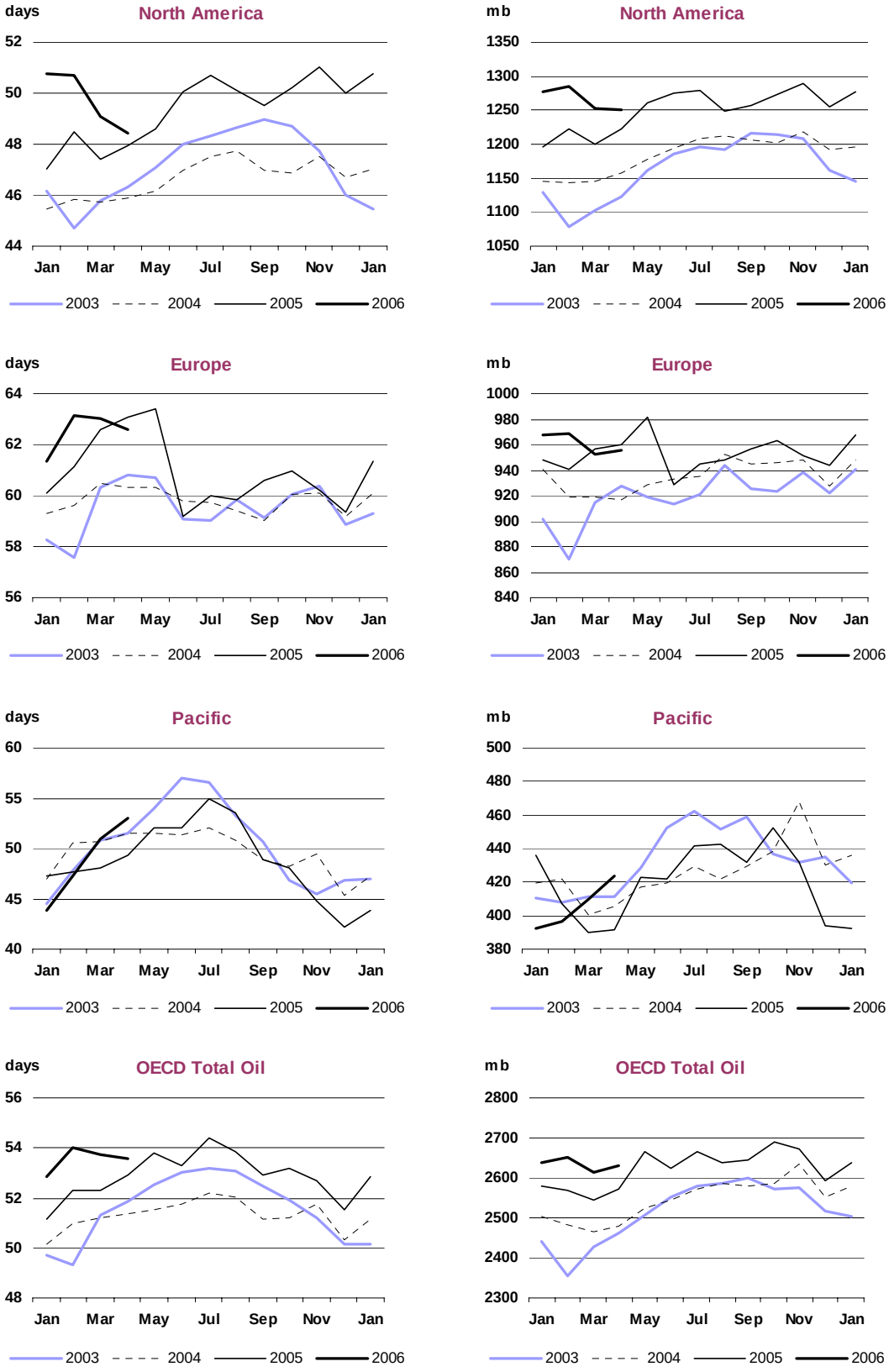
Middle distillate stocks fell to record low levels in the first half of May before rebounding in the latter part of the month. In a similar pattern to gasoline, spring maintenance kept regional supplies tight, while earlier exports to Africa, the US and China reduced stocks. However, as exports to Africa subsided with the end of its harvest season, stocks rebuilt to the middle of their five-year range.

Residues trended downwards in May and dropped sharply at the end of the month. Higher than expected Chinese imports and a slowdown in arrivals from the West supported the draw.

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

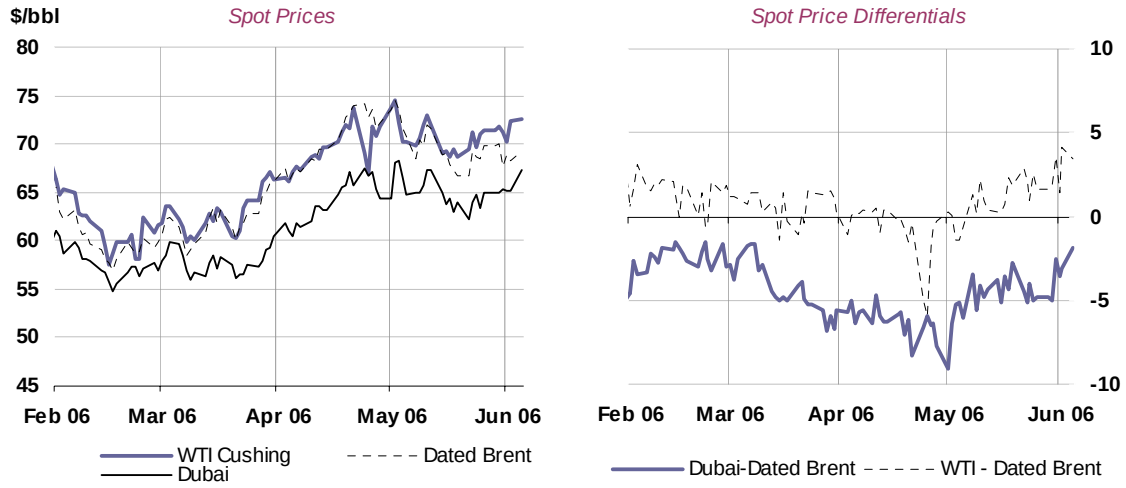
- **Crude futures** edged slightly higher on average during May with NYMEX WTI gaining $0.80/bbl and IPE Brent rising $0.44/bbl. Prices pulled back from the record levels reached in April before recovering somewhat in the second half of the month. The early May decline followed (in line) with a sell-off in global asset markets and expectations that inflationary pressures could lead to a further tightening in monetary conditions. Oil market fundamentals, however, were little changed in May and forward curves in early June retained their basic shape and level when compared to end-April. The time spreads in the near months stayed in contango and, in the case of NYMEX WTI, year-ahead delivery priced above $75.00/bbl in early June.

- **NYMEX unleaded gasoline** continued to see strength in the prompt month price, supported by supply concerns for the summer period. The market eyed upward revisions to US gasoline demand alongside a slow resumption in US refinery runs and unplanned outages. US gasoline stocks rose seasonally but mostly as a result of exceptionally high imports. The average price for unleaded gasoline for front-month contract in May was unchanged following strong gains made in April but crack spreads rose in the second half of the month. Anticipation of more domestic supply and sustained high imports weighed down on prices for forward delivery and the market held in an unusual backwardation for this time of the year.

- **Physical crude** price differentials saw WTI regain its usual premium over Dated Brent in May following repeated discounts in April. A rising spread is seasonally anticipated as US refiners exit maintenance and increase their crude requirements. However, the current differential appears too weak to support spot trade in light-sweet crude, notably from West Africa to the US. High US crude stocks and delays in the resumption of refinery runs were key factors in limiting a further widening of this spread. By the same token, the upcoming June peak refinery maintenance period in Asia reduced crude requirements in the region, keeping Dubai at a strong discount relative to Brent and closing eastwards arbitrage sales for Atlantic Basin crudes.

- **Physical product** prices saw contrasting trends mainly due to variations in refinery output related to scheduled maintenance or unplanned outages. Regular unleaded gasoline prices in the US eased slightly on average in May but mostly retained strong gains made earlier in April. Those in Singapore and Europe in contrast were up, with the former posting the strongest dollar gains across markets. Asia saw refinery maintenance cut into regional supplies while prompt demand emerged. Distillate prices saw increases in most markets, these driven essentially by diesel and jet fuel. With the exception of Singapore and the Mediterranean, low-sulphur fuel oil prices were broadly weaker during May on the weight of prompt supplies or reduced utility demand.

Benchmark Crude Oil Prices



Oil Futures Prices

Crude futures edged higher on average in May. The front-month contract on the NYMEX was up by $0.80/bbl to $70.96/bbl and by a more modest $0.44/bbl to $70.98/bbl on the IPE. Crude availability in the Atlantic Basin kept prompt prices depressed relative to forward ones, maintaining contango in the near month time spreads. Relative crude availability appeared higher in Europe as seen in upward revisions to inventory data and rising light-sweet crude supplies in the Mediterranean with the Baku-Tbilisi-Ceyhan (BTC) pipeline coming online. At the same time, European crude demand in May was curtailed by unplanned outages in key refining facilities. As result, spreads in the IPE Brent contract widened. In contrast, those for WTI tightened, reflecting anticipation of peak US refinery utilisation rates come July and August. Product futures saw strength in the front-month heating oil and gasoline contracts, price support stemming from current supply tightness in diesel or concerns over future availability in the case of gasoline.

Prompt Month Oil Futures Prices

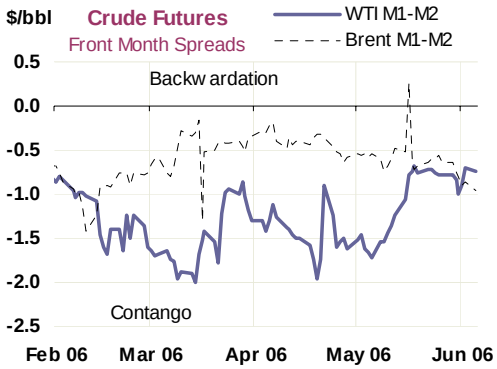
(monthly and weekly averages, $/bbl)

	Mar	Apr	May	May-Apr		Week Commencing:				
				Avg Change	%	08 May	15 May	22 May	29 May	05 Jun
NYMEX										
Light Sweet Crude Oil	62.97	70.16	70.96	0.80	1.1	71.59	69.12	70.71	71.50	71.58
Unleaded Gasoline	75.30	87.61	87.60	-0.01	0.0	89.19	84.91	87.58	90.46	90.06
RBOB	80.49	93.04	95.57	2.54	2.7	100.58	92.52	93.48	97.22	96.85
No.2 Heating Oil	74.73	83.11	83.41	0.31	0.4	85.32	81.39	82.71	83.47	84.94
No.2 Heating Oil ($/mmbtu)	12.83	14.27	14.32	0.05	0.4	14.65	13.97	14.20	14.33	14.58
Henry Hub Natural Gas ($/mmbtu)	6.98	7.26	6.37	-0.89	-14.0	6.62	6.09	6.08	6.39	6.24
IPE										
Brent	63.03	70.54	70.98	0.44	0.6	71.90	69.48	70.17	70.47	70.18
Gasoil	75.21	83.15	84.71	1.56	1.8	85.50	83.50	84.37	85.19	85.17
Prompt Month Differentials										
NYMEX WTI - IPE Brent	-0.06	-0.38	-0.02	0.36		-0.31	-0.36	0.53	1.03	1.40
NYMEX No.2 Heating Oil - WTI	11.76	12.95	12.45	-0.49		13.73	12.27	12.00	11.97	13.36
NYMEX Unleaded Gasoline - WTI	12.33	17.45	16.64	-0.81		17.60	15.79	16.87	18.97	18.48
NYMEX RBOB - WTI	17.53	22.88	24.61	1.74		28.99	23.39	22.77	25.72	25.27
NYMEX 3-2-1 Crack (Unleaded)	12.14	15.95	15.24	-0.70		16.31	14.62	15.25	16.64	16.78
NYMEX 3-2-1 Crack (RBOB)	15.61	19.57	20.56	0.99		23.91	19.68	19.18	21.14	21.30
NYMEX No.2 - Natural Gas ($/mmbtu)	5.85	7.00	7.95	0.94		8.03	7.88	8.12	7.94	8.35
IPE Gasoil - IPE Brent	12.18	12.61	13.73	1.12		13.60	14.02	14.19	14.72	14.99

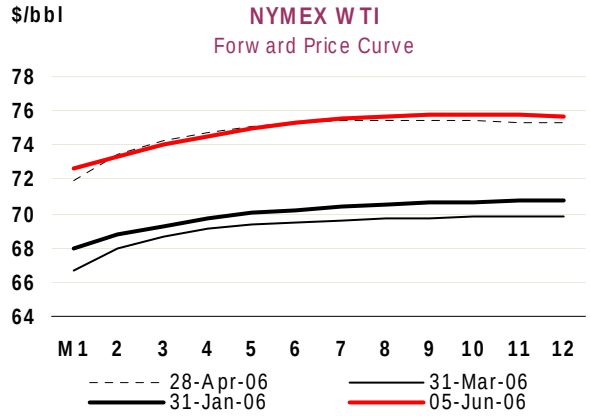
The oil market outlook remains strong, leaving the forward curves for crude in early June broadly unchanged from the end of April. The back end of the curve was steady in comparison to prompt month values, the 12th month on NYMEX broadly trending sideways in May at just below $75.00/bbl. Expectations for robust economic growth in leading consuming countries remain in place and recent strength in US oil demand appears more commensurate with the underlying economic performance. On the supply side, this Report sees non-OPEC supply growth back loaded to year-end and subject to the usual caveats regarding weather and unplanned outages. In the near term, refiner crude demand will rise seasonally to meet summer gasoline demand while 550 kb/d of Nigerian oil supplies remain disrupted. Output from the Gulf of Mexico recovered with the return of the Mars platform. However, future improvements may be more limited and protracted. A backdrop of low effective spare capacity in production and saturated upgrading capacity in refining will keep geopolitical tensions surrounding Iran high on the agenda, swaying volatility in prices to the upside.

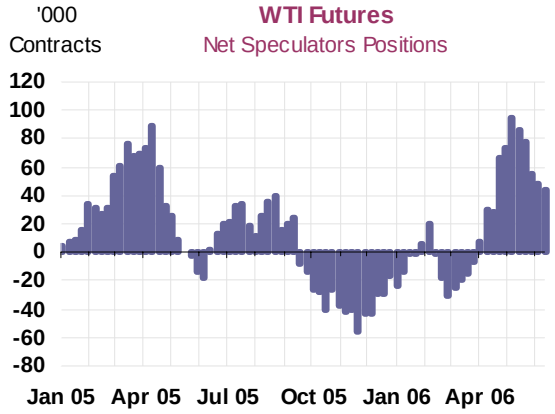
Crude Futures

While futures prices edged higher on average in May, on a daily basis, they initially pulled back from the record levels reached in late April. Crude prices moved lower in the first half of May alongside a sell-off in other asset markets. Inflationary pressures in the US also stoked fears of a tighter stance on interest rate policy from the US Federal Reserve, potentially slowing down economic growth and by extension oil demand. In the absence of a significant change in oil fundamentals, prices recouped some of the loss in the second half of the month as



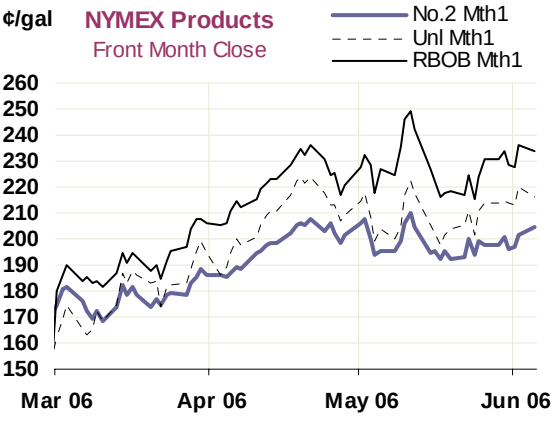
concerns over future supplies returned to the agenda. While geopolitical tensions around Iran continued to cause intra-day gyrations, seasonally rising crude demand appeared to be forcing a narrowing of time spreads in the near months. Further along the curve, disruption to Nigerian supplies, coupled with forecasts for an active Atlantic hurricane season, were supportive of forward prices. As such, markets priced forward delivery at a premium, and price structures held in strong contango, continuing to encourage storage through year end. At the time of writing, December delivery was at a premium to July by over $2.50/bbl. OPEC's decision to maintain production quotas at its 1 June meeting came as no surprise in light of firm outright prices, but recent dollar weakness is likely to catch OPEC's attention alongside changes in the world oil balance. The net-buying position by non-commercial participants on the NYMEX WTI contract was reduced significantly over the May.

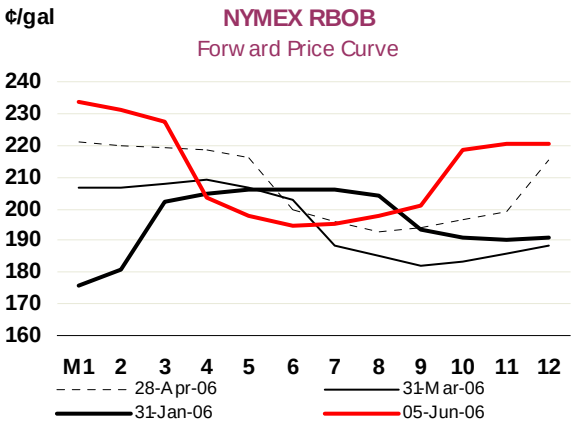




Product Futures

Gasoil oil futures were up on average during May. With heating oil demand falling seasonally, price support came from diesel and jet fuel supply tightness; these products being more affected by reduced refinery output. In the case of the US, additional support was also given by the June transition to ultra-low sulphur diesel. Forward prices were seasonally in contango, encouraging stock builds ahead of winter. The crack spread on NYMEX was relatively stable in the second half of the month and non-commercial participants increased their net-long (buying) position in May.

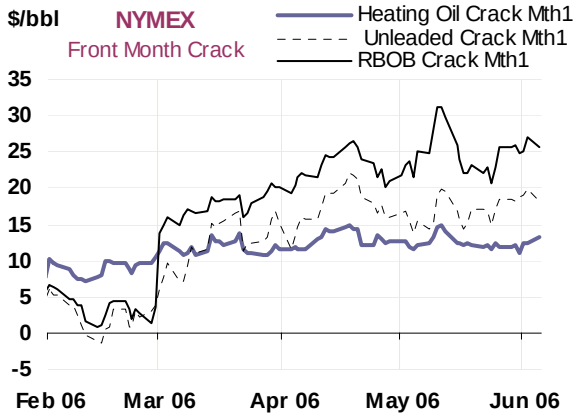


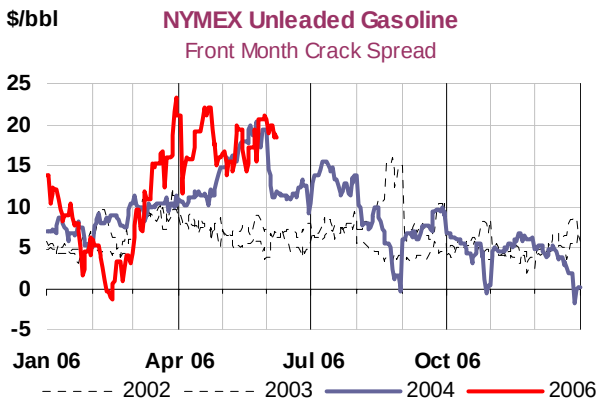


Unleaded gasoline prices on NYMEX were unchanged on average during May but moved higher in the second half of the month in spite of rising inventories. Gasoline stocks rebuilt towards their five-year average but the rate of climb was not spectacular and driven by imports. Refinery runs were disappointing at the start of the summer driving season and delays or unplanned outages implied pushing back an increase in domestic output further into the driving season. This weighed on forward delivery prices leaving the NYMEX unleaded gasoline contract in backwardation.

With supply concerns still rife in view of recent strength in US gasoline demand, prompt prices were strong. Gasoline crack spreads widened markedly at the end of May and were high on a seasonal basis. In the absence of strong recovery in domestic output in June, an easing of gasoline imports from May's record breaking levels could sustain the front-month crack into July compared to the dip typically

observed during the period. However, a rapid tightening of crude stocks can upset this picture if refiners ramp up throughputs and bid crude higher. Another element of caution is selling pressure associated with the migration of investor positions away from the unleaded contract towards RBOB. While some rollover has likely taken place, this may be accelerated by the announcement in early June that the closely watched GSCI commodities index would transfer its position out of the unleaded gasoline contract into RBOB. The GSCI is a composite index of commodity sector returns and is a long (buy) only investment in commodity futures. This follows an earlier shift in April by the DJ AIG index, another closely watched index. The rollout will be carried out a third at a time during August (September delivery), September (October delivery) and October (November delivery).



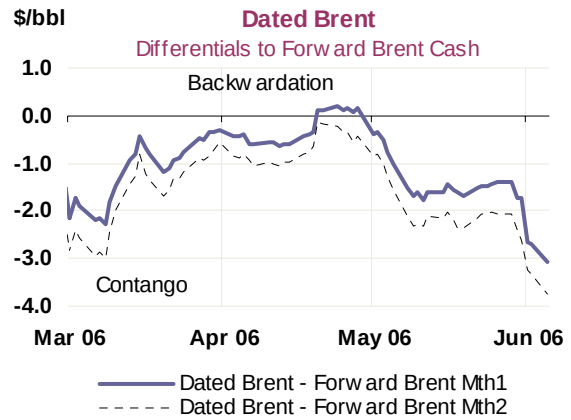


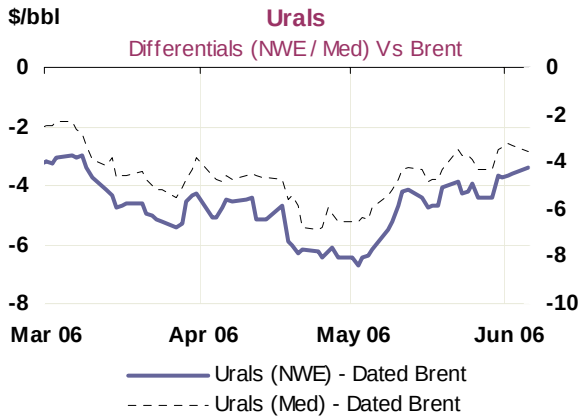
The unleaded gasoline to RBOB spread has been volatile in May and widening into June. Selling pressure on the unleaded contract leading up to the rollover may support further wider movements in this spread. The GSCI, in contrast to the DJ AIG index, is heavily weighted in energy futures with gasoline at just under 9% of the index. The rollover in positions will mechanically raise trading volumes on RBOB. But in terms of price movements, the magnitude and duration of the impact of the GSCI shift can be expected to be larger, given the far greater size of funds tracking the index than in the case of the DJ AIG index.

Spot Crude Oil Prices

Spreads between benchmark crude prices saw weakness in WTI and Dubai versus Brent. While cash prices for WTI edged higher over May, the average spread for the month came only to $1.04/bbl, too weak to support drawing spot West African cargoes, but seemingly sufficient to pull competing Azeri Light and Saharan Blend crude. Typically, the differential widens to attract foreign light-sweet crude as US refiners exit maintenance and ramp up throughputs ahead of summer. However delays in the resumption of US runs and crude stocks running significantly above the top end of their five-year range contained a material widening of the spread. Though WTI's cash premium moved higher in June, the forward curve spreads on futures markets were still pricing in a relatively narrow range.

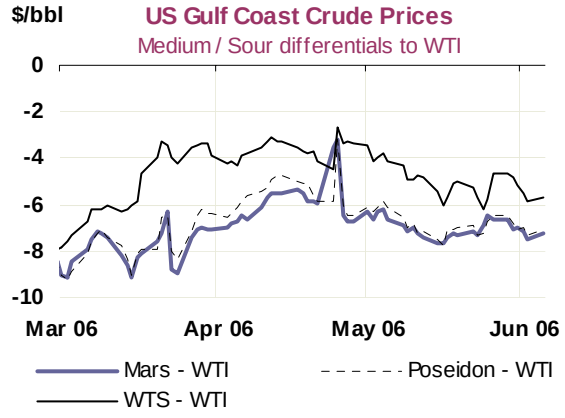
Dubai values were strongly discounted in May reflecting seasonally lower crude requirements as Asia moved deeper into scheduled refinery maintenance in June. Dubai swap prices were on average $5.42/bbl below Brent quoted in Asia, narrowing a little from the $5.71/bbl average seen in April. Weakness in fuel oil crack values also helped to depress Dubai and Oman values.

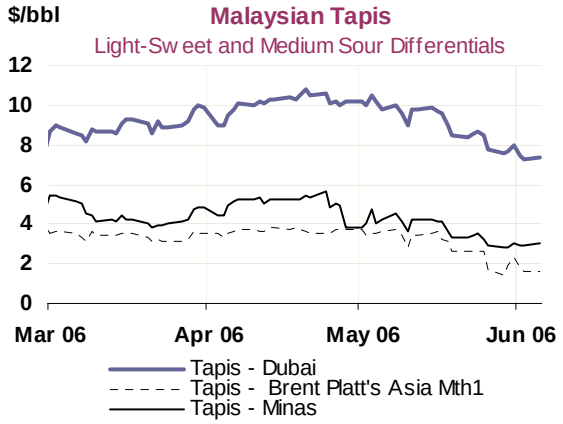




The Brent market saw a dramatic widening of differentials between physical and forward cash prices indicating high crude stocks and prompt availability in Europe. Offline capacity in Europe following refinery turnarounds and unplanned outages at key plants contributed to downward pressure on prompt prices. A number of June cargoes were reported unsold and Brent cfd prices (short-term swaps) were heavily discounted relative to forward month values. Weakness in Brent-related North Sea grades came with unfavourable transatlantic spot trade. After an initial gain, North Sea premiums fell back at the end of the month, the decline also compounded by lower gasoline prices and a mid-month dip in European cracking margins. In addition, alternative light-sweet supplies in the Mediterranean were providing competition, pressuring grades such as Norwegian Ekofisk to remain at discount to Brent. Supplies of Azeri Light were seen rising with the beginning of the lifting of cargoes delivered by the BTC pipeline which came into operation in late May.

Urals differentials against Brent were weak though improving in the second half of May. Initial weakness in the grade followed from competing supplies of Saudi and Iranian crude in the Mediterranean and lower demand due to scheduled refinery maintenance or unplanned outages. Spreads narrowed in the second half of May, but against a weaker Brent price. Early May weakness had pushed Urals values below benchmarks Dubai and Oman, prompting sales to Asia and tightening supplies. Strong cracking margins for Urals and the return from maintenance by Mediterranean refiners was also supportive alongside expectations of lower Black Sea supplies in June.





Differentials for West African crudes against Brent were mixed. Nigerian grades like Bonny Light and Forcados saw their premiums widen but Angolan Girassol weakened despite prolonged field maintenance in view of thinner Asian demand. The wide Brent-Dubai spread hampered arbitrage to the east while US buying interest was subdued. Alternative light-sweet Mediterranean crude displaced sales to the US of comparable West African grades. Nigerian (gasoline rich) Bonny Light was as much as $4.00/bbl above Azeri light and Algerian Saharan Blend before sellers dropped asking prices to try to clear an overhang of June cargoes.

On the US Gulf Coast, medium-sour crude weakened relative to WTI following the resumption of Mars production on 21 May. However, high US crude stocks and depressed refinery utilisation rates mainly contributed to wider differentials and steepened the forward physical price contango in Mars. A similar trend was observed for heavy Maya crude. Increasing offers of light-sweet crude on the Gulf Coast led these grades to be discounted relative to WTI and forward prices for LLS ended roughly balanced by end month after being backwardated for most of May. Differentials should begin to tighten as refinery runs pick up and the usual seasonal descent in inventories unfolds. In May, this was not the case as crude imports outweighed modest increases in crude runs.

In Asia and the Middle East, benchmark medium-to-heavy sour crudes were higher on average in May but gains were limited by lower demand ahead of peak refinery maintenance in June. However, more distillate rich crudes, such as Murban, drew support from strong gasoil and jet/kerosene prices. Light product strength also appeared to support Tapis alongside a strengthening of LSWR in Singapore in the second half of the month. However Tapis premiums relative to Dubai, Minas and Brent (Asia) steadily declined over the month, the price of the crude was seen as overvalued and buying interest for June barrels was reported shifting towards Atlantic Basin crudes instead. Outright prices of Tapis fell from $78.00/bbl in early May to under $73.00/bbl in early June.

Delivered Crude Prices in March

IEA countries continued to see costs for delivered crude rise in March. The average barrel arriving in IEA Europe cost $59.64/bbl in CIF terms, compared to $59.19/bbl in February. North American IEA countries paid $54.93, up $0.40/bbl on previous-month prices. The IEA Pacific bucked this trend with prices down $0.43/bbl to $61.01/bbl in IEA Pacific.

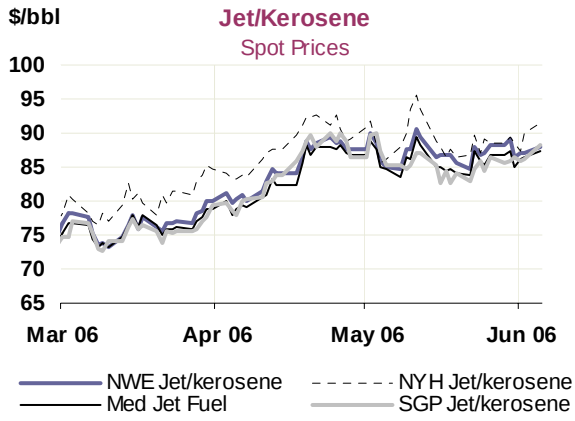
Spot Crude Oil Prices and Differentials

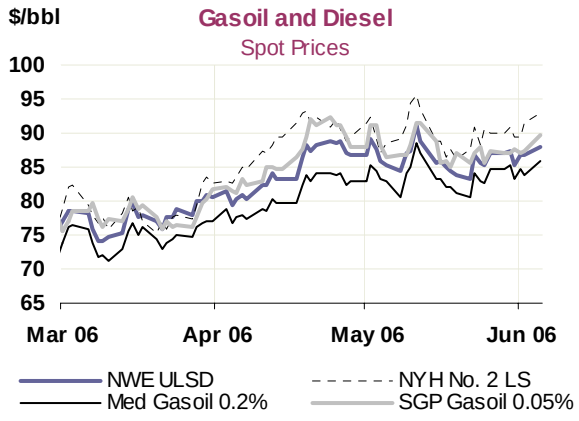
(monthly and weekly averages, $/bbl)

	Mar	Apr	May	May-Apr Avg Change	%	Week Commencing: 08 May	15 May	22 May	29 May	05 Jun
Crudes										
Dated Brent	62.09	70.35	69.83	-0.52	-0.7	70.46	67.94	68.54	68.72	68.30
Brent (Asia) Mth1 adjusted	63.38	70.56	71.17	0.61	0.9	71.95	70.15	69.82	70.89	71.39
WTI (Cushing) Mth1 adjusted	62.82	69.46	70.92	1.46	2.1	71.88	69.02	70.56	71.44	71.54
Urals (Northw est Europe)	57.87	64.90	64.98	0.08	0.1	65.70	63.42	64.39	65.05	64.74
Urals (Mediterranean)	58.11	64.95	65.08	0.13	0.2	65.68	63.34	64.72	65.36	64.58
Dubai Mth1 adjusted	57.82	64.14	65.00	0.86	1.3	65.70	64.02	63.85	65.12	66.03
Dubai Sw aps Mth1 adjusted	58.76	64.85	65.75	0.90	1.4	66.31	64.77	64.77	65.77	66.31
Minas (Dated)	62.30	69.17	70.35	1.18	1.7	71.17	69.45	68.93	69.80	69.86
Tapis (Dated)	66.79	74.21	74.07	-0.14	-0.2	75.29	73.37	72.22	72.72	72.90
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	0.73	-0.88	1.09	1.98		1.43	1.08	2.02	2.73	3.23
Urals (Mediterranean)	-3.99	-5.40	-4.75	0.64		-4.77	-4.60	-3.82	-3.36	-3.73
Urals (Northw est Europe)	-4.22	-5.45	-4.85	0.60		-4.75	-4.52	-4.15	-3.66	-3.56
Dubai Mth1 adjusted - Dated Brent	-4.28	-6.20	-4.83	1.37		-4.76	-3.92	-4.69	-3.60	-2.27
Dubai Sw aps - Brent Asia	-4.62	-5.71	-5.42	0.29		-5.64	-5.38	-5.05	-5.12	-5.08
Tapis (Dated)	4.70	3.87	4.25	0.38		4.84	5.42	3.68	4.01	4.60
Prompt Month Differential										
Forw ard Cash Brent Mth1-Mth2 adj.	-0.51	-0.42	-0.61	-0.18		-0.59	-0.64	-0.62	-0.70	-0.75
Forw ard WTI Cushing Mth1-Mth2 adj.	-1.40	-1.83	-0.94	0.89		-0.95	-0.77	-0.32	-0.81	-0.63

Spot Product Prices

Prices saw mixed trends for light products across markets in May. Gasoline prices were on average higher in Europe and Asia and slightly weaker in the US. Overall, gasoline prices mostly held on to strong gains made in April. Distillate prices saw increases on average across all markets surveyed with the exception of heating oil in the US. Reduced refinery output due to maintenance was supportive of diesel and jet/kerosene values, notably in Asia and Europe. Broadly speaking, daily fuel oil prices eroded during May and crack spreads to reference crude oils deteriorated. LSFO in Europe rebuilt some of its premium over HSFO after a weak April in the Mediterranean but remained mostly discounted in Northwest Europe.

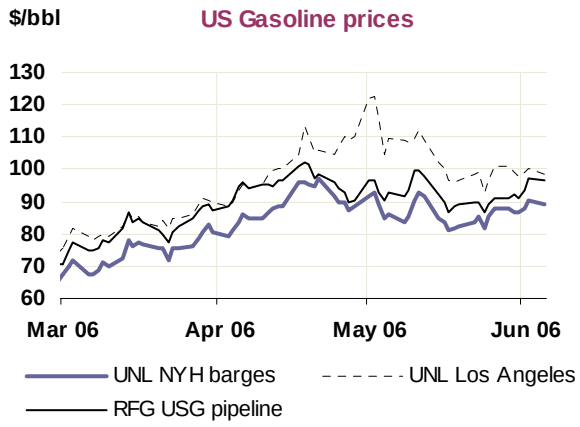


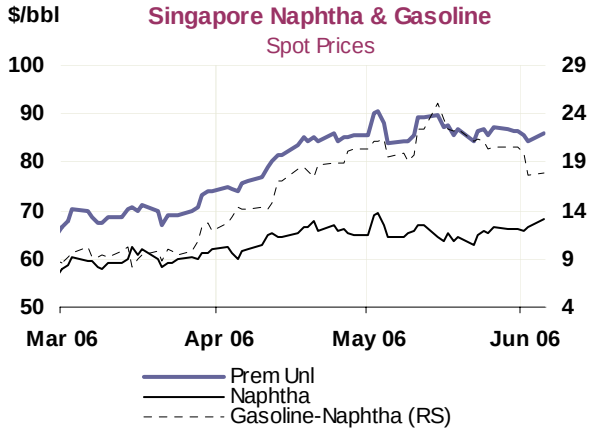


Regular unleaded gasoline prices were down on average in the US, falling mainly in the first half of May. Prices on the West Coast bucked this trend, May posting an average gain of $2.61/bbl over April for unleaded and $1.10/bbl for premium. Unleaded gasoline lost $2.56/bbl in New York

Harbour and some $5.17/bbl on the Gulf Coast as record imports hit the Atlantic Coast, inventories began to rise and preliminary weekly demand data appeared to show weakness in growth. However, supply concerns surfaced with delays in the seasonal exit from refinery maintenance and unplanned outages, leading prices higher in the second half of the month.

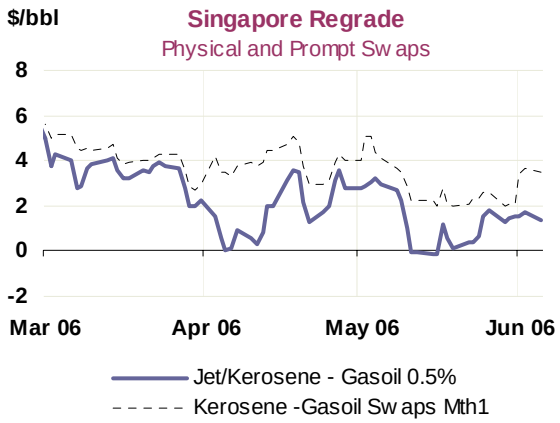
Gasoline supplies tightened in Asia following refinery maintenance, strong spot demand and lower exports from China. Chinese exports continued to be depressed against year-ago levels while price strength on the US West Coast attracted Korean cargoes. The suspension of a tax rebate on exports alongside an increase in retail prices helped to keep more product in the domestic market. Light distillate stocks (gasoline and naphtha) were lower in May and gasoline's premium to naphtha (the reforming margin) widened through mid-month. The drop-off in exports boosted low octane gasoline prices in the region and supported an average gain of $5.67/bbl for premium unleaded gasoline from April.

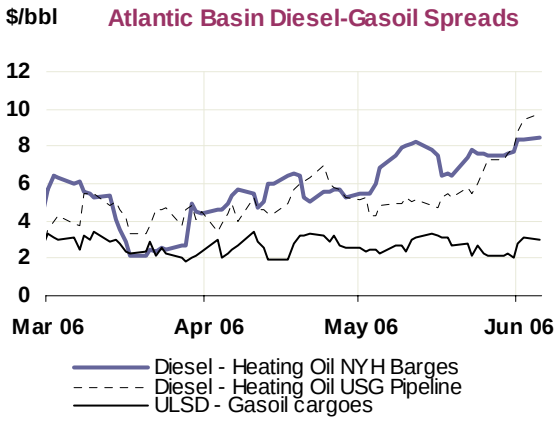




In addition to refinery maintenance reducing supplies, gasoline price strength in Europe was export-led. Arbitrage shipments to the US combined with deliveries to West Africa provided support. Nigeria was reported to tender for around 70 cargoes of gasoline in the second quarter, significantly higher than the usual quarterly volume of 40 to 45 cargoes per quarter. Prices in Europe after an initial decline rose strongly in the second half of May. Average gains in the Mediterranean of $3.90/bbl over the month were more pronounced compared to those Northwest Europe, the area's product balance was strongly affected by the closure of ERG's ISAB refineries in Sicily.

Distillate prices, with the exception of heating oil in New York Harbour, were on average higher. Jet fuel prices were on the rise across markets with European prices posting the largest monthly increases. Swap prices in Northwest Europe held in contango and physical price premiums were rising slightly against the front-month IPE gasoil contract. Jet fuel gained an average of $2.31/bbl in May in Northwest Europe in spite of high physical availability and ample stocks in independent storage. European diesel was also at a premium to IPE as supplies tightened on lower refinery output. As seen for gasoline, prices were better supported in the Mediterranean relative to Northwest Europe on refinery outages in Sicily. In contrast, 0.2% gasoil was discounted in Northwest Europe during the month on seasonally lower demand and high outright prices limiting buying interest.





Distillate supplies tightened in Asia as turnarounds reduced regional supplies. Lower availabilities of gasoil and jet/kerosene were seen in Singapore stocks dipping temporarily below their recent five-year range and paper prices holding in strong backwardation. Gasoil prices were also supported by Middle Eastern product diverted to Africa and Indonesian spot demand emerging following an outage at Pertamina's 120 kb/d Dumai refinery. Mid-month, jet fuel lost its premium to gasoil (the regrade spread) for cargo prices in Singapore. However, the regrade remained firm in paper markets and eventually re-established itself for physical prices. As for gasoline, jet fuel prices were supported by arbitrage flows from Korea to the US West Coast. Chinese demand also firmed with China Aviation Oil lifting its purchases in June to 320 000 tonnes from its usual 200 000 tonnes monthly purchase.

US heating oil prices were on average down on seasonally lower demand but diesel was up in New York Harbour and to a lesser extent on the Gulf Coast. As in Europe, diesel and jet/kerosene were trading above front-month futures. US refiners prepared to switch production to ultra-low sulphur diesel (ULSD) mandated in June at the refinery gate. Stocks of ULSD started to rise in May but were small relative to higher sulphur material. Production reached nearly 500 kb/d by end-May, limiting output increases in higher sulphur material. Regular diesel prices continued to strengthen relative to heating oil but also posted a premium relative to jet/kerosene.

Asian HSFO prices on a daily basis drifted lower over the month as supplies mounted in the region. In addition to incoming Western supplies, offers from India also put downward pressure on prices. LSWR prices in Singapore bucked this trend, as prices rose in the second half of May, driven higher by expectations of lower exports from Indonesia and a pick up in summer demand by utilities.

Spot Product Prices

(monthly and weekly averages, $/bbl)

	Mar	Apr	May	May-Apr		Week Commencing:					Mar	Apr	May
				Change	%	08 May	15 May	22 May	29 May	05 Jun			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	69.46	82.60	85.20	2.60	3.1	86.72	82.90	84.48	87.81	87.94	7.37	12.26	15.37
Unleaded	68.34	81.20	83.62	2.42	3.0	85.13	81.30	82.89	86.18	86.06	6.25	10.85	13.79
Naphtha	58.16	65.20	66.25	1.04	1.6	66.05	64.35	66.39	66.78	66.98	-3.93	-5.14	-3.58
Jet/Kerosene	76.73	84.93	87.23	2.31	2.7	88.08	86.39	86.97	87.41	87.40	14.64	14.58	17.41
Gasoil .2%	74.78	81.88	83.41	1.52	1.9	84.34	81.97	83.25	84.07	84.11	12.69	11.54	13.58
LSFO 1%	47.18	49.67	49.01	-0.66	-1.3	48.81	47.94	49.50	49.29	47.90	-14.92	-20.68	-20.82
HSFO 3.5%	45.90	49.70	50.18	0.48	1.0	50.67	49.45	49.79	49.20	47.61	-16.19	-20.65	-19.65
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm *	69.42	80.50	84.39	3.90	4.8	85.62	81.85	83.74	86.21	85.53	11.31	15.55	19.32
Naphtha	57.31	64.34	65.40	1.06	1.7	65.09	63.48	65.77	66.25	66.48	-0.80	-0.61	0.33
Jet Aviation fuel	76.11	83.75	85.93	2.17	2.6	86.75	84.58	85.84	86.25	86.54	18.00	18.80	20.85
Gasoil .2%	74.80	80.89	83.65	2.76	3.4	85.05	82.39	83.01	84.22	84.55	16.69	15.94	18.57
LSFO 1%	49.62	49.55	50.83	1.28	2.6	51.45	49.96	51.15	51.33	48.89	-8.48	-15.40	-14.25
HSFO 3.5%	45.14	48.25	48.42	0.17	0.4	48.85	47.62	48.20	48.23	47.03	-12.97	-16.70	-16.66
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	79.22	99.30	100.03	0.74	0.7	103.74	97.01	96.18	100.27	100.35	16.40	29.83	29.11
Unleaded	74.17	88.80	86.24	-2.56	-2.9	88.71	82.57	84.79	87.97	88.14	11.35	19.34	15.32
Jet/Kerosene	80.39	88.26	89.05	0.79	0.9	92.07	87.39	88.23	88.85	90.29	17.56	18.80	18.13
No. 2 (Heating Oil)	74.67	83.16	82.73	-0.42	-0.5	84.73	80.57	81.83	82.28	83.17	11.84	13.69	11.81
LSFO 1%	47.36	51.03	49.25	-1.78	-3.5	48.48	48.26	48.94	49.50	49.30	-15.47	-18.43	-21.67
No. 6 3%	46.61	48.77	48.58	-0.19	-0.4	48.14	47.33	48.28	48.41	48.74	-16.21	-20.69	-22.34
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	69.64	81.13	86.80	5.67	7.0	85.86	87.32	86.04	85.90	84.54	11.82	16.99	21.80
Naphtha	59.82	64.45	65.59	1.14	1.8	65.63	64.26	65.12	66.09	67.32	2.01	0.30	0.59
Jet/Kerosene	75.66	84.77	85.55	0.78	0.9	85.60	83.81	84.87	86.08	87.15	17.84	20.62	20.55
Gasoil .5%	72.21	82.99	84.18	1.19	1.4	84.11	83.48	83.93	84.57	85.92	14.39	18.85	19.18
LSWR Cracked	52.43	58.08	58.04	-0.04	-0.1	58.00	57.12	57.61	58.85	59.55	-5.38	-6.07	-6.96
HSFO 180 CST	51.87	53.88	53.73	-0.16	-0.3	54.28	53.17	53.10	52.51	51.34	-5.95	-10.26	-11.27
HSFO 380 CST 4%	51.24	53.79	53.79	-0.01	0.0	54.31	53.36	53.04	52.23	51.64	-6.57	-10.35	-11.21

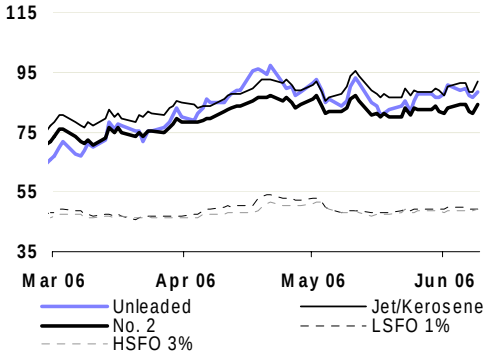
* From January 2005 Premium Unleaded 50 ppm

End-User Product Prices in May

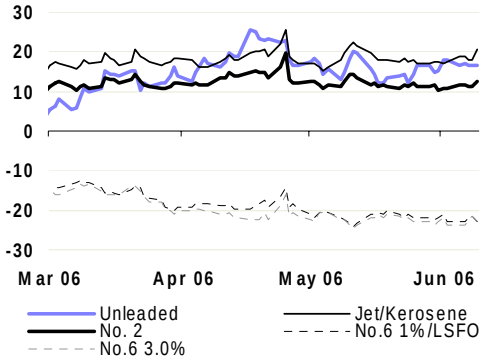
Gasoline price rallies boosted May prices at the pump by 8-12% in IEA Europe and Japan, before tax. Dollar-based consumer diesel prices also rose by 12% in Japan and by 6-7% for most drivers in IEA Europe. US consumers felt a 7.5% net price increase in both fuels in May and are now paying almost 77 cents per litre gross for gasoline. Heating and fuel oil end-user prices rose by around 10% in Spain and Japan respectively.

Product Prices and Differentials to Benchmark Crude Oil Prices

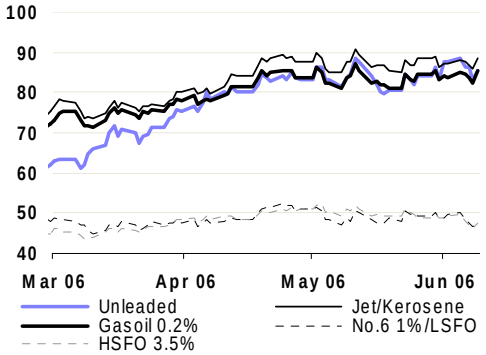
$/bbl **New York Harbour Spot Product Prices**
(Fob Barges)



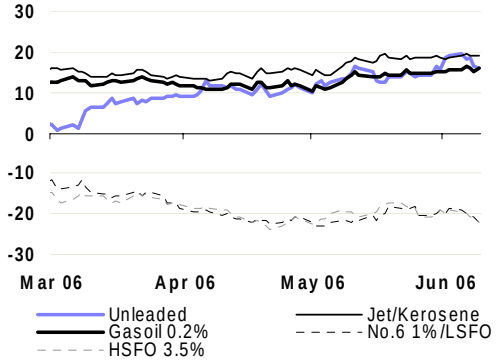
$/bbl **New York Harbour Product Spreads to**
WTI (Fob Barges)



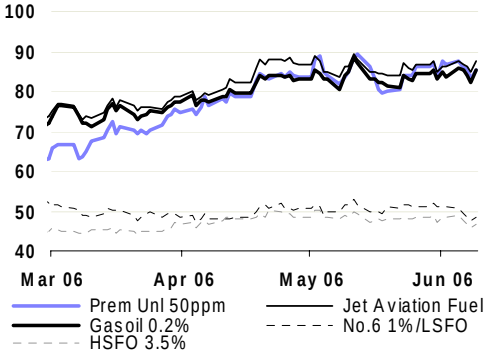
$/bbl **Northwest Europe Spot Product Prices**
(Fob Barges)



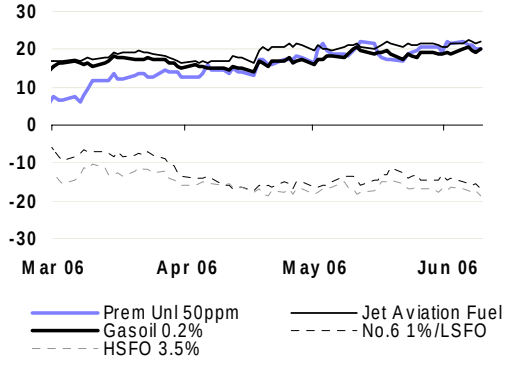
$/bbl **Northwest Europe Product Spreads to**
Brent (Fob Barges)



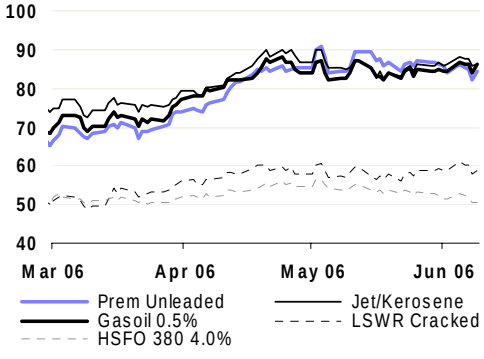
$/bbl **Mediterranean Spot Product Prices**
(Fob Cargoes)



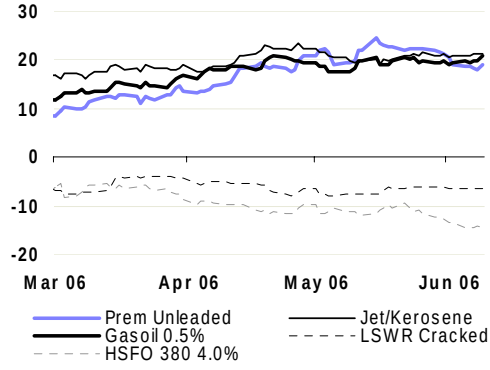
$/bbl **Mediterranean Product Spreads**
to Urals (Fob Cargoes)



$/bbl **Singapore Spot Product Prices**
(Fob)



$/bbl **Singapore Product Spreads to Dubai**
(Fob)

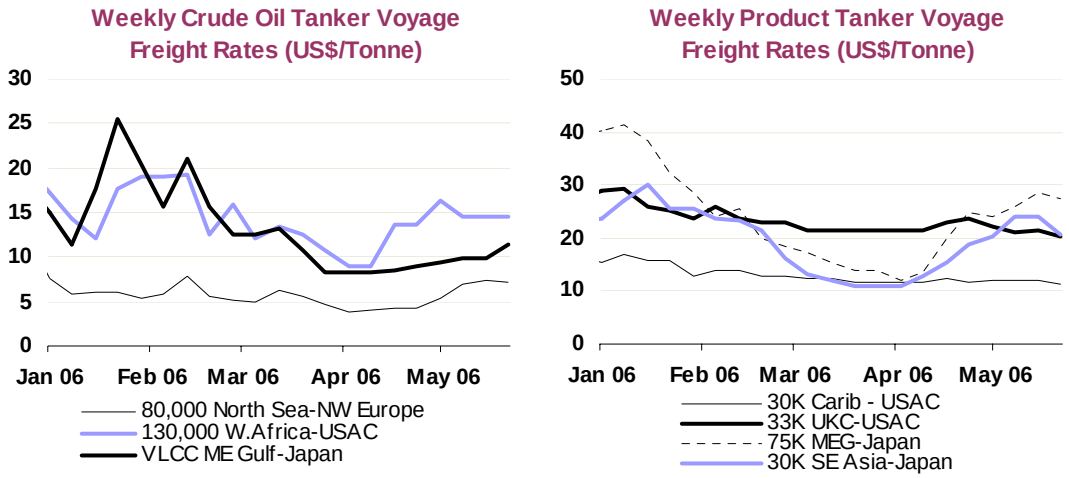


Freight

Demand for crude vessels rose in May as Atlantic Basin refiner interest built with the end of seasonal turnarounds. European and US refiners booked vessels to deliver crude in time to meet summer product demand. Crude tanker costs increased as a result, despite the bearish influences of surplus vessel availability and expansions to the tanker fleet. Caribbean Aframax rates rose dramatically on high US imports in May.

Charter costs for VLCCs heading from the Arabian Gulf to Japan rose from under $8/tonne in mid-April to $14.59/tonne by early June. Similarly, US Gulf-bound VLCC rates from the Middle East, under $15/tonne in mid-April, reached $23/tonne by the beginning of June. After a period of weakness in demand during the second quarter due to heavy spring refinery turnarounds, this marked a significant recovery in crude vessel interest.

With crude demand seasonally rising, the mid-May opening of the chartering window for June loading vessels allowed Western refiners to start booking VLCCs from the Middle East. These will arrive in the Atlantic Basin in July. Increased chartering in the Arabian Gulf reduced tonnage available for hire in the region and will eventually translate into a rise in oil-in-transit volumes. The fact that Middle Eastern rates have already returned to above-average levels for this time of year, suggests tightness in the sector.



US crude imports trended towards the top of their five-year range towards the end of May. Sustained demand for US-bound tankers kept transatlantic Suezmax rates from West Africa steady at around $20/tonne. US interest also pushed up million-barrel rates from the North Sea from $11/tonne around mid-April to nearly $18/tonne by end-May. Mediterranean Suezmax trade is likely to expand as a result of the opening of the BTC pipeline. The first cargo of Azeri Light crude shipped via the BTC pipeline from Ceyhan in early June.

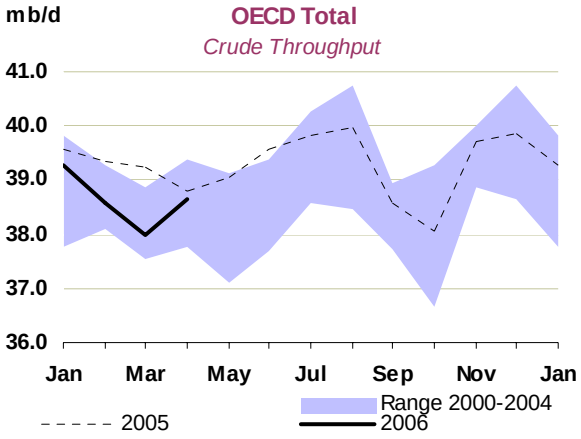
Caribbean Aframax rates are often volatile and in May were particularly affected by high US imports which drove them up dramatically. Freight rates rose from below $7/tonne in early May to almost $13/tonne by 24 May. The pull on vessels from the Caribbean also forced up Mediterranean and North Sea Aframax rates. These peaked at about $8 and $8.54/tonne respectively by 22 May.

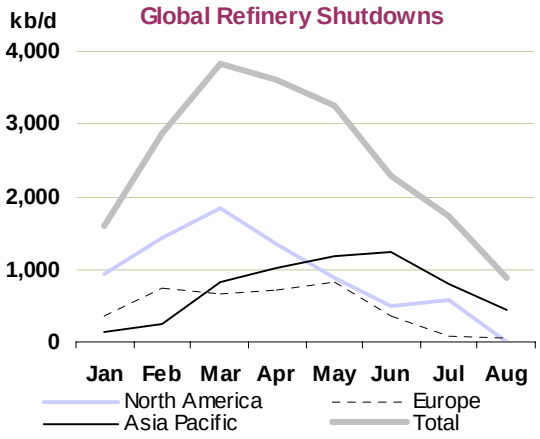
Charter rates for the transit of clean cargoes of 75 000 tonnes from the Arabian Gulf to Japan hit a seasonal peak of $36/tonne on 21 May. This caps a steep rise from $15/tonne in early April - the bottom of the five-year range – and reflects the volatility of charter rates in today's tanker markets. Increased Asian product buying and a notable arbitrage to Australia, where product supply was tight in May, contributed to rising clean charter rates in Asia as a whole. Transatlantic clean rates to the US fell, despite an open arbitrage and high US imports of gasoline.

REFINERY ACTIVITY

Summary

- **Full cost refining margins** remained at historically high levels in May, reflecting limited spare, upgrading and desulphurisation capacity. The heavier-than-normal Atlantic Basin maintenance programme and unplanned shutdowns have tightened global product markets and thus supported margins. The product tightness seen in the US during April spread to Europe and the Asia Pacific in May, reflecting the increased level of offline capacity in these regions.
- **Refining margins** on the US Gulf Coast dropped in May. As increased crude runs and high product imports during the month eased product market tightness. Cracking margins for Mars crude dropped $2.78/bbl to $6.40/bbl. On the West Coast margins were steady, with ANS cracking averaging $13.15/bbl, up $0.43/bbl from April. In Europe, gains were more pronounced in the Mediterranean, where a series of unplanned outages coincided with heavy planned maintenance. Mediterranean Urals cracking margins increased $2.33/bbl, to reach $8.94/bbl, while in Northwest Europe they were $1.67/bbl higher at $9.52/bbl. In Singapore Dubai hydrocracking margins averaged $5.38/bbl, an increase of $0.62/bbl, primarily due to stronger gasoline cracks ahead of peak regional maintenance in June.





- **OECD crude throughputs** recovered in April from the low level seen in March with higher runs in the Atlantic basin, outpacing a decline in the Pacific region. April OECD throughputs increased 672 kb/d to an estimated 38.6 mb/d, from a downward revised (-360 kb/d) March figure. Average throughputs are 147 kb/d below the April 2005 level, with North America's deficit partially offset by higher runs in Europe and the Pacific. Delays to the restart of refineries in the US and Europe, plus unplanned shutdowns have delayed the peak of OECD offline distillation capacity from March to May. With the focus of maintenance shifting to the Pacific, and the restart of Atlantic Basin refineries, June throughputs should be substantially higher than in May.
- **OECD refinery yield data** for March continue to show that gasoline yields remain below levels of a year ago, with the decline in North America offset by gains in OECD Europe and Pacific. Jet/kero yields are similarly under pressure in North America and the Pacific, but above March 2005 in Europe. March OECD gasoil/diesel yields have benefited from these declines and were a full percentage point higher than in March 2005.

Refining Margins

OECD North America

US refining margins in May were stable on the West Coast, but weaker on the Gulf Coast. May witnessed a progressive weakening in both regions, despite margin spikes associated with unplanned refinery outages. Nevertheless, margins remain strong on a historical basis, reflecting a lack of spare upgrading and desulphurisation capacity. Tight gasoline supplies have been partly offset by strong gasoline imports. In May gasoline imports surpassed even the hurricane-related levels of last Autumn, as the industry continues to adjust to the replacement of MTBE with ethanol and the seasonal increase in demand. Furthermore, distillate markets have tightened in recent weeks with the mandated introduction of ultra-low sulphur diesel from 1 June, reducing sulphur content by 97% to 15ppm.

The tightening of transport fuel quality specifications appears to be contributing to upward pressure on margins. The strong premiums seen for high octane gasoline blending components and an overall strong margin environment suggests that refiners are pushing the limits of existing capacity. Furthermore, the high levels of product imports belie the fact that the tighter specifications and loss of MTBE have increased alternative gasoline or blending component supply costs and this is being reflected in higher average margins.

Selected Refining Margins in Major Refining Centres

($/DBL)

		Monthly Average			Change	Week Ending:				
		Mar 06	Apr 06	May 06	May 06-Apr 06	05 May	12 May	19 May	26 May	02 Jun
NW Europe	Brent (Cracking)	4.09	4.17	6.49	2.32	4.55	6.67	6.00	6.49	7.67
	Urals (Cracking)	6.94	7.86	9.52	1.67	9.14	9.78	9.21	9.17	9.58
	Brent (Hydroskimming)	-1.00	-3.06	-1.79	1.27	-3.30	-1.43	-1.36	-0.86	-0.08
	Urals (Hydroskimming)	0.09	-0.99	-0.28	0.71	-0.23	0.21	0.43	0.21	-0.04
Mediterranean	Es Sider (Cracking)	5.06	5.33	7.77	2.43	7.36	8.10	7.81	7.29	8.35
	Urals (Cracking)	6.18	6.61	8.94	2.33	8.58	9.22	8.97	8.68	9.09
	Es Sider (Hydroskimming)	-0.18	-2.35	-0.42	1.93	-1.23	-0.34	-0.01	-0.60	0.04
	Urals (Hydroskimming)	-0.88	-2.32	-0.74	1.58	-1.23	-0.65	-0.31	-0.85	-0.97
US Gulf Coast	Brent (Cracking)	3.59	7.14	4.63	-2.51	3.04	7.01	4.13	4.14	6.08
	LLS (Cracking)	7.05	11.52	8.50	-3.02	7.59	10.38	7.94	8.03	9.67
	Mars (Cracking)	7.69	9.18	6.40	-2.78	6.01	8.46	6.73	5.16	5.97
	Mars (Coking)	13.96	17.39	14.48	-2.91	13.82	17.22	14.44	12.98	14.74
	Maya (Coking)	15.94	22.17	19.37	-2.80	18.66	22.05	18.76	18.09	20.73
US West Coast	ANS (Cracking)	7.22	12.72	13.15	0.43	17.38	15.52	11.85	10.48	10.64
	Kern (Cracking)	10.34	12.11	12.25	0.14	15.09	14.70	11.47	10.35	9.64
	Oman (Cracking)	5.33	12.18	12.69	0.51	16.93	14.88	10.78	10.98	10.75
	Kern (Coking)	21.81	31.74	32.56	0.82	39.51	36.44	28.98	29.37	30.03
Singapore	Dubai (Hydroskimming)	-0.24	0.10	0.01	-0.08	-0.04	-0.45	0.32	0.60	-0.63
	Tapis (Hydroskimming)	-5.06	-4.24	-2.56	1.68	-3.96	-3.83	-2.55	-1.12	-1.28
	Dubai (Hydrocracking)	2.81	4.76	5.38	0.62	5.17	4.79	5.71	5.99	5.04
	Tapis (Hydrocracking)	-2.96	-1.49	0.66	2.16	-0.74	-0.62	0.73	2.09	1.86
China	Cabinda (Hydroskimming)	-4.76	-5.14	-3.70	1.44	-5.30	-3.88	-3.09	-3.48	-3.11
	Daqing (Hydroskimming)	-4.96	-5.04	-5.61	-0.58	-6.60	-6.47	-5.60	-4.60	-4.37
	Dubai (Hydroskimming)	-0.79	-0.20	-0.36	-0.15	-0.38	-0.78	-0.04	0.20	-1.12
	Daqing (Hydrocracking)	-1.16	-0.27	0.13	0.40	-0.74	-0.83	0.32	1.03	1.10
	Dubai (Hydrocracking)	2.27	4.52	5.03	0.50	4.86	4.46	5.37	5.60	4.57

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.

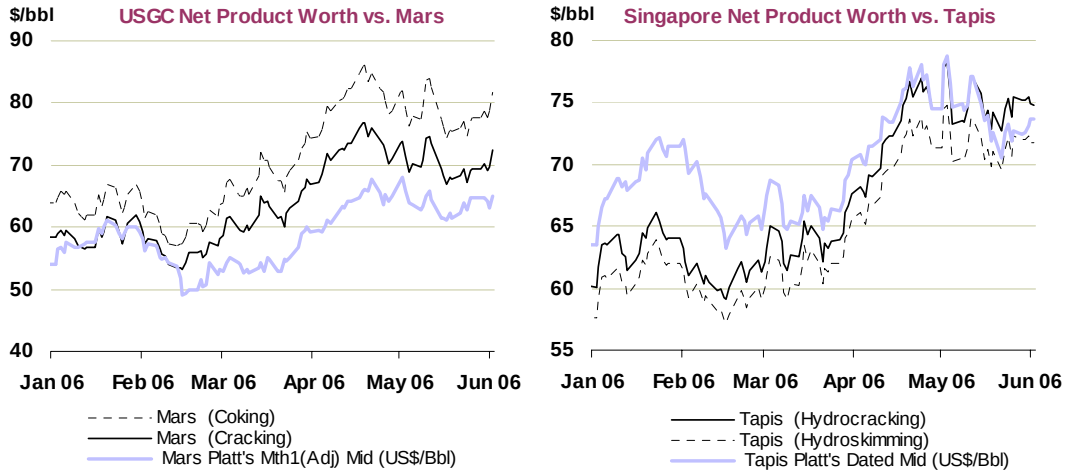
Sources: IEA, Purvin & Gertz Inc.

US Gulf Coast cracking margins fell on average by $2.77/bbl on domestic light-sweet and medium-sour grades in May, primarily as a result of weaker gasoline cracks. Cracking Light Louisiana Sweet crude yielded a margin of $8.50/bbl, well above the $6.40/bbl from cracking medium-sour Mars crude. Coking margins on Mars were $2.91/bbl lower at $14.48/bbl reflecting the much lower fuel oil, but higher gasoline yields associated with full conversion refineries. West Coast margins remain the strongest of those covered in this Report on a comparable basis. ANS cracking margins averaged $13.15/bbl in May, $0.43/bbl per barrel higher than in April, having peaked at $19.74/bbl in early May. Kern coking margins averaged $32.56/bbl, an increase of $0.82/bbl from April, reflecting the very strong light product cracks seen in the region.

OECD Europe

European margins in May were higher on average than in April due to stronger light product and stable fuel oil cracks. Mediterranean margins outperformed Northwest Europe (NWE) as a heavy maintenance programme and delays to the restart of the ISAB North refinery, following a fire, tightened Mediterranean product markets. However margins eased back in late May as ample Russian distillate and fuel oil supplies, plus the prospect of the ISAB plant restarting, eased Mediterranean market tightness. European fuel oil cracks, though heavily negative, improved over the first half of May as high levels of exports to Asia supported fuel oil prices. However, following the cancellation

of an Asian-bound VLCC and the high level of Russian supplies, cracks again weakened towards the end of the month. NWE hydroskimming margins turned temporarily positive during the month, in part due to the stronger fuel oil cracks. However, they deteriorated in early June with the renewed weakness in fuel oil. In NWE the delayed restart of the 50 kb/d Pernis FCC unit, possibly until mid-June, supported gasoline cracks which, despite the intermittent closure of the arbitrage to the US, in turn supported NWE cracking margins.



Asia

Asian margins were generally boosted by a strong increase in gasoline cracks, although weaker fuel oil cracks undermined hydroskimming margins. The decline in Tapis's premium to the sour benchmark Dubai grade boosted the profitability of processing Tapis compared to Dubai. Gasoline cracks extended their late April strength into May as two Japanese refinery fires and the June peak in Asia Pacific maintenance activity left refiners trying to cover requirements from the spot cargo market. The open arbitrage (on paper) to the US West Coast, reduced Chinese exports and strong demand from Vietnam and Indonesia, further contributed to higher regional gasoline cracks.

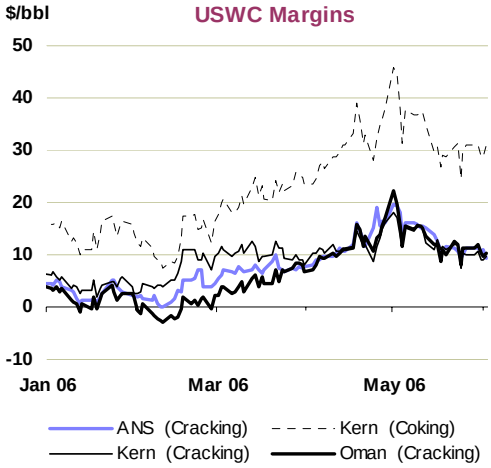
Dubai hydrocracking margins in May averaged $5.38/bbl in Singapore, an increase of $0.62/bbl from April, while hydroskimming margins remained around breakeven. Hydroskimming margins, though still negative on regional sweet crudes such as Tapis in Singapore and Daqing in China improved in early late May and early June on the back of stronger low-sulphur waxy residue cracks.

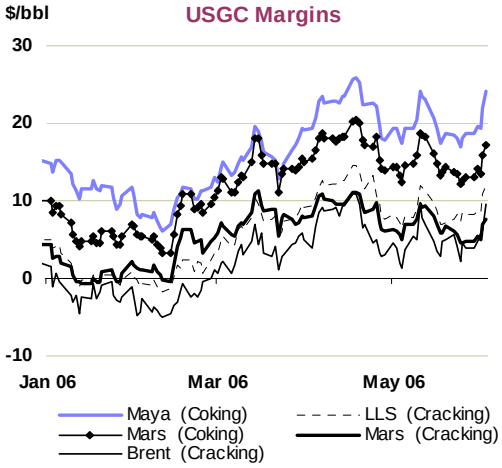
OECD Refinery Yields

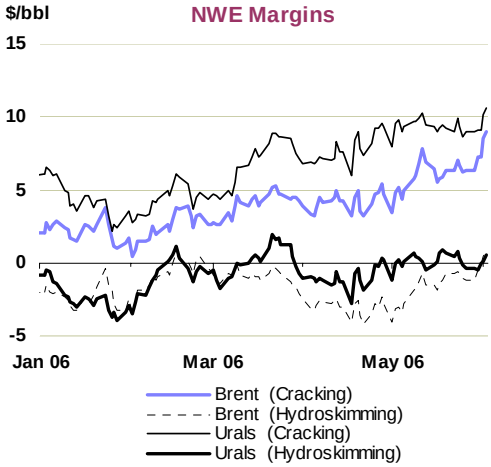
OECD refinery yield data continue to show that gasoline yields remained under pressure in March in North America but have registered increases in OECD Europe and the Pacific. Recent US data point to increased imports of finished gasoline and gasoline blending components by refiners to meet demand. Pacific jet/kerosene yields continued to decline falling to 14.9% in March from 17.4% in February, some 1.3% below March 2005 levels. This decline reflects the seasonal drop in demand for kerosene at the end of the Northeast Pacific winter heating season. However, OECD European jet/kero yields remain around 0.6% stronger than their five-year average and year-ago levels during the first quarter, with demand primarily linked to aviation requirements rather than heating demand.

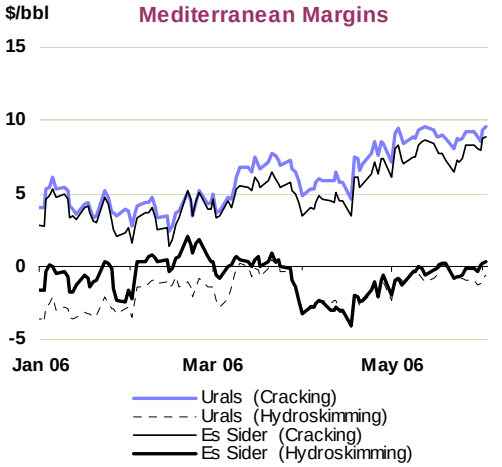
The largest move during March was in OECD gasoil/diesel yields which were a full percentage point higher than in March 2005, extending the increase in yield seen in February. US distillate cracks in March were above those available for regular unleaded, suggesting refiners were likely to have maximised the value of their production within existing capacity constraints Gains were driven by North American yields which were higher in the US and Mexico and in particular in Canada where yields are up 5.5% from March 2005. Robust demand growth for Diesel in Canada would appear to be driving the higher gasoil/diesel yield reported by refiners.

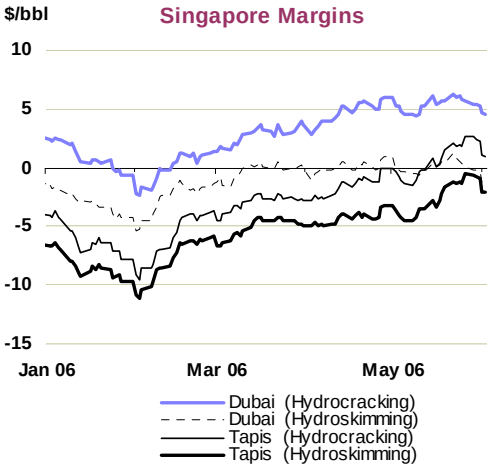
Regional Full-Cost Refining Margins













Refinery Throughput

OECD refinery throughputs recovered in April from the low level seen in March with higher runs in the Atlantic basin, outpacing declines in the OECD Pacific region. The shifting focus of refinery maintenance, from the US and Europe, to Japan and Korea underlie these changes. April throughputs increased 672 kb/d to an estimated 38.6 mb/d, from a downward revised (-360 kb/d) March figure. Average throughputs are 147 kb/d below April 2005's level, with North America's decline partly offset by gains in Europe and the Pacific. As a result, the average OECD capacity utilisation rate in April was 85.8% for the month, 1.2% below April 2005. May crude runs are likely to be flat versus April, as refiners push units harder, while offline capacity is expected to have risen by 150 kb/d.

Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*	*Apr 05*	Utilisation rate[2]	
	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	Apr 06	mb/d	%	Apr 06	Apr 05
OECD North America										
US[3]	15.02	15.03	14.81	14.58	14.58	14.91	-0.58	-3.8	85.99	90.85
Canada	1.83	1.79	1.79	1.91	1.64	1.78	0.14	8.8	88.19	81.07
Mexico	1.18	1.31	1.33	1.23	1.19	1.28	-0.05	-3.7	75.81	71.96
Total	18.03	18.14	17.93	17.72	17.42	17.96	-0.49	-2.6	85.39	88.91
OECD Europe										
France	1.86	1.82	1.76	1.54	1.57	1.51	-0.28	-15.9	76.10	91.77
Germany	2.41	2.41	2.28	2.31	2.08	2.30	0.07	3.2	94.75	90.87
Italy	1.98	1.89	1.86	1.88	1.82	1.89	0.00	0.1	81.29	81.34
Netherlands	1.09	1.05	0.91	1.04	1.00	0.88	-0.24	-21.6	71.96	91.37
Spain	1.24	1.20	1.23	1.21	1.24	1.24	0.05	3.8	97.43	93.88
UK	1.64	1.68	1.59	1.57	1.44	1.57	0.00	-0.3	83.74	86.33
Other OECD Europe	4.13	4.09	4.08	3.92	3.99	4.16	0.56	15.5	86.17	77.54
Total	14.35	14.15	13.71	13.46	13.15	13.54	0.15	1.1	85.04	85.38
OECD Pacific										
Japan	4.14	4.31	4.40	4.27	4.31	4.10	0.15	3.7	87.86	84.06
Korea	2.52	2.54	2.53	2.44	2.41	2.33	0.09	4.0	90.37	86.86
Other OECD Pacific	0.69	0.73	0.72	0.67	0.69	0.70	-0.04	-5.7	86.88	86.42
Total	7.34	7.58	7.65	7.39	7.41	7.13	0.20	2.8	88.56	85.20
OECD Total	39.72	39.86	39.29	38.57	37.97	38.64	-0.15	-0.4	85.83	86.99

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

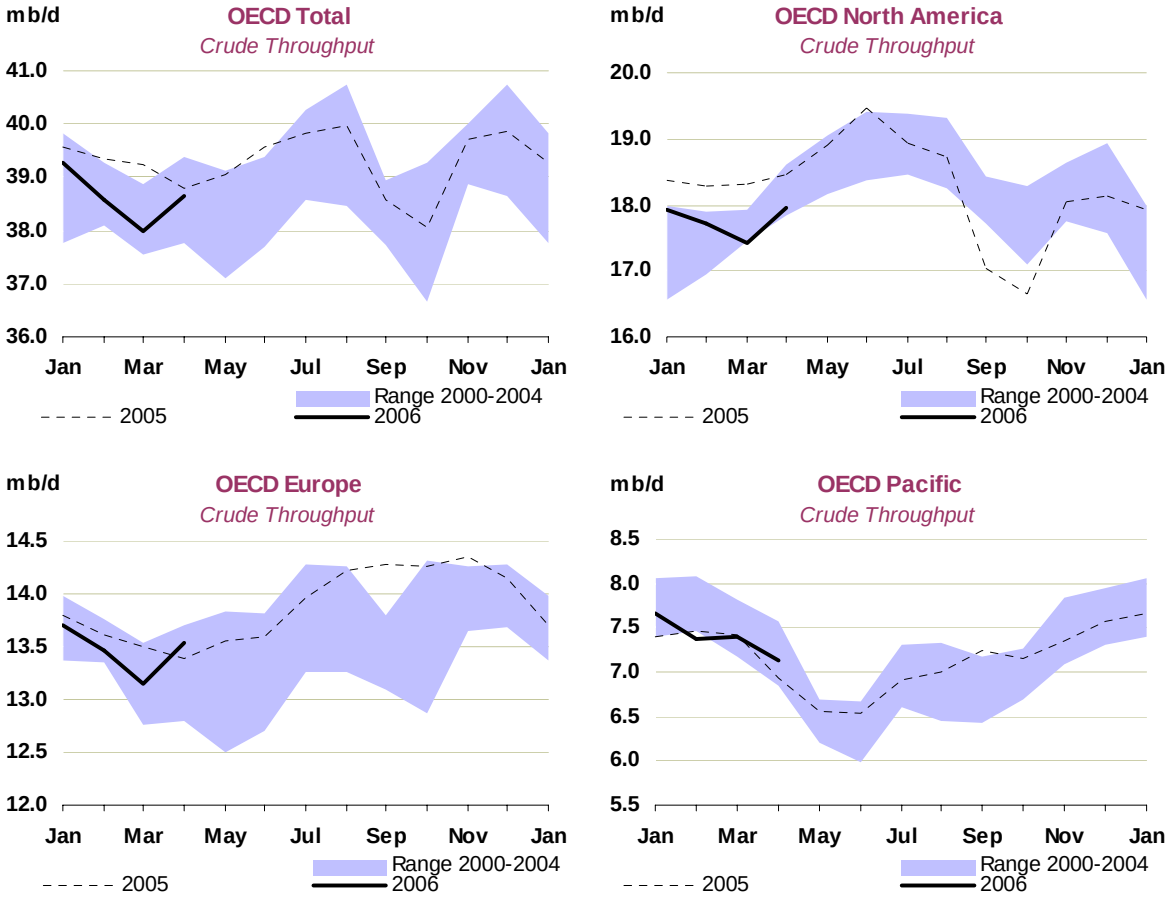
OECD North America

Provisional data for April show that North American crude throughputs increased by 544 kb/d to an estimated 17.96 mb/d. This sharp increase from March's downward revised level of 17.42 mb/d (-150 kb/d) reflects the decline in maintenance work in the region, the restart of ConocoPhillips' Belle Chasse refinery and the partial restart of BP's Texas City facility. Despite the increase, crude throughputs remain 487 kb/d below last year's level.

April US throughputs averaged 14.91 mb/d, 326 kb/d above March's level, but still 583 kb/d lower than April 2005 levels. Average capacity utilisation increased to 86% which is significantly better than March's 85.1% but still 4.8% below last year. Making an adjustment for offline capacity suggests refineries ran at 92.4% of available capacity, which is below last April's figure of 94.2% and suggests refiners are still working towards reaching full crude runs at some plants. Weekly US data point to a continued recovery in crude throughputs to 15.63 mb/d by early June, and gross inputs into refineries at 15.82 mb/d. However, refiner activity continues to lag 2005 levels. Adjusting for capacity additions since last summer, US crude runs would need to reach 16.66 mb/d by early July, to match last year's peak capacity utilisation, something which looks unlikely from today's level.

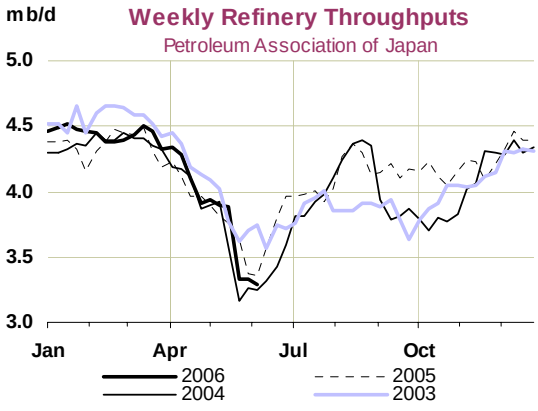
OECD Europe

European crude throughputs rebounded from March's low level to average 13.54 mb/d in April, an increase of 147 kb/d compared to a year earlier. This is 398 kb/d above March's reduced (-50 kb/d) estimate of 13.15 mb/d. Increased throughputs in Germany (+217 kb/d) and the UK (+132 kb/d), and elsewhere offset the decline reported in the Netherlands, (-121 kb/d), likely to be related to the Pernis run cuts. European crude throughputs may dip again in May due to Mediterranean refiners' increased maintenance work and ERG's ISAB plant outage.



OECD Pacific

OECD Pacific crude throughputs are estimated to have declined 273 kb/d to 7.13 mb/d in April. Despite the monthly drop in crude runs they remain 195 kb/d higher than a year earlier. The start of seasonal maintenance in Japan and unplanned outages at several refineries account for the fall in crude runs from the revised (-159 kb/d) March level of 7.41 mb/d. Once again a lower estimate for Japanese crude throughputs accounts for much of the downward revision to estimates for the preceding month, having been reduced by 144 kb/d for March.



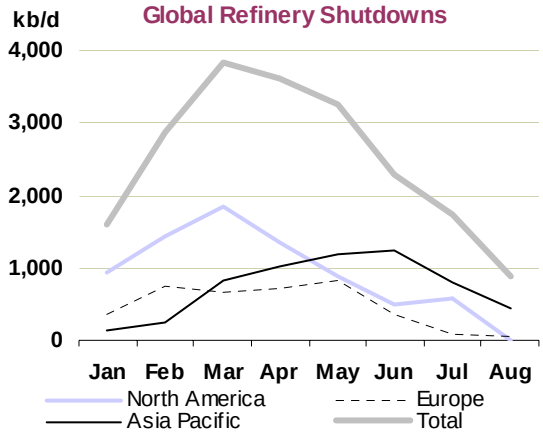
Weekly data from the Petroleum Association of Japan show that crude runs in early June have dipped to 3.29 mb/d, slightly above our expectations. While runs may dip further in the next week or two, June should see the start of a recovery in runs, following the seasonal pattern of the past few years, as refiners seek to meet peak gasoline demand.

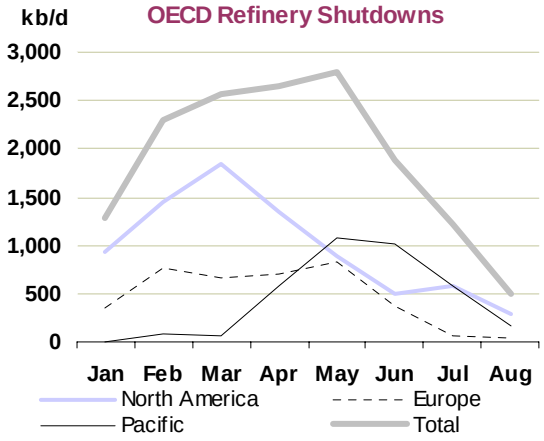
Korean throughputs fell by 84 kb/d to 2.33 mb/d as work began at refineries operated by SK Corp and Caltex. Despite the increase in offline capacity, runs stayed 91 kb/d above the April 2005 level, suggesting other refineries are running harder than last year. Crude runs in May should stay above levels of a year ago, as maintenance work dips slightly before the seasonal maintenance peak in July.

Offline Refinery Capacity

This Report's estimate for offline capacity in OECD refineries is again increased following delays to the restart of refineries in Italy, the Netherlands and the US, amongst others. The peak in OECD offline capacity has shifted from March to May, at 2.8 mb/d, as increased estimates for Atlantic Basin

activity now overlap with peak month for OECD Pacific maintenance. Global offline primary distillation capacity still looks to have peaked in March. However, the recovery in runs has been more subdued than previously expected.

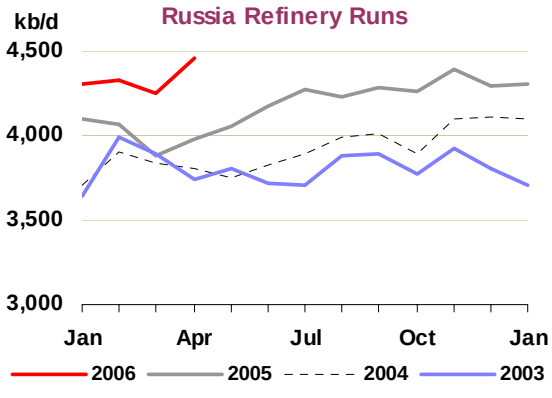


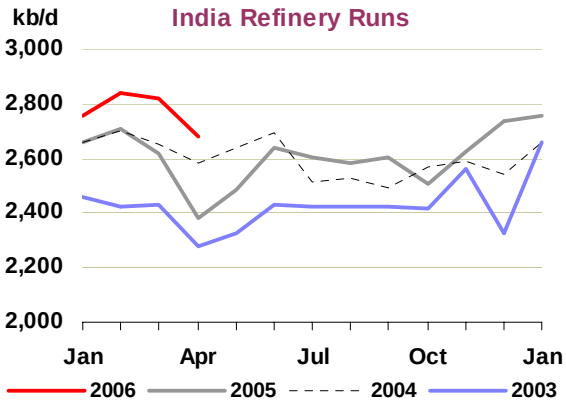


The increase in OECD offline capacity is equally split between European and North American refiners. Delays to the restart of Conoco Phillips refineries on the East Coast and Murphy's Meraux plant on the Gulf Coast account for much of the increase. In Europe, the delayed restart of ERG's ISAB North plant, following a fire and higher estimates for the impact of work at OMV's Schwechat and Total's Fiumicino plants, plus delays in the restart of the Shell Pernis FCC, have all contributed to higher estimates for May and June.

Non-OECD Throughputs

Chinese crude runs, as reported for the two main domestic refiners, were 5.7 mb/d in April, slightly ahead of March's 5.5 mb/d. Total Chinese crude runs increased to 6.1 mb/d in April from 5.93 mb/d in March and we expect them to have increased again in May to 6.2 mb/d. Domestic product supply concerns have led to reduced export volumes of gasoline and diesel and May's domestic price increase should encourage refiners to increase runs where possible, with some refiners reported to have restarted idle units following the price increase. June throughputs will be affected by increased maintenance work, at Sinopec's Maoming and Jinling plants, plus work at PetroChina's Lanzhou plant. However, the commissioning of the 160 kb/d Hainan refinery in late June and the return of these three plants to full operation should boost refinery runs in the third quarter.





Russian throughputs rebounded in April to 4.46 mb/d from 4.26 mb/d in March. Rising crude runs have translated into rising product exports in recent months ahead of tax increases by the Russian government on product exports. Indian refinery throughputs were slightly higher than anticipated in March at 2.8 mb/d. However the increased level of reported maintenance in April should see runs dip slightly to 2.7 mb/d. Over the balance of the year, crude runs should increase with the decline of maintenance work and the start up of IOC's 120 kb/d Panipat refinery expansion, in late May, followed by Essar's new 156 kb/d refinery in the third quarter. These two new plants have the potential to lift Indian crude throughputs above three million barrels per day.

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	25.4	25.4	25.1	25.5	25.9	26.0	25.6
Europe	15.3	15.4	15.7	15.2	15.6	16.0	15.6	15.7	15.3	15.7	15.8	15.6	15.9	15.1	15.6	15.8	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.1	8.1	8.8	8.6	9.3	8.0	8.2	9.0	8.6
Total OECD	48.0	48.6	50.2	48.1	49.2	50.5	49.5	50.7	48.7	49.3	50.0	49.7	50.3	48.6	49.6	50.8	49.9
NON-OECD DEMAND																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.8	3.8	3.7	3.8	3.9	3.8	3.9	3.7	3.8	4.0	3.9
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	6.8	6.6	6.7	7.0	7.0	7.2	7.0
Other Asia	8.0	8.1	8.6	8.7	8.5	8.9	8.6	8.9	8.9	8.7	8.7	8.8	8.9	8.9	8.7	9.0	8.9
Latin America	4.8	4.7	4.8	5.0	5.1	5.0	4.9	5.0	5.1	5.2	5.1	5.1	5.1	5.2	5.3	5.2	5.2
Middle East	5.3	5.4	5.7	5.7	6.0	5.8	5.8	6.0	6.1	6.3	6.1	6.1	6.4	6.4	6.7	6.4	6.5
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	2.9
Total Non-OECD	29.8	30.7	32.4	33.1	33.0	33.8	33.1	34.0	33.8	34.1	34.2	34.0	34.7	34.9	35.0	35.5	35.0
Total Demand[1]	77.8	79.3	82.6	81.3	82.2	84.2	82.6	84.6	82.5	83.3	84.2	83.7	85.0	83.5	84.7	86.4	84.9
OECD SUPPLY																	
North America	14.5	14.6	14.8	14.7	14.4	14.4	14.6	14.4	14.6	13.7	13.6	14.1	14.2	14.2	14.3	14.5	14.3
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.7	5.4	5.5	5.6	5.6	5.2	5.3	5.5	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	0.5	0.5	0.5	0.6	0.5
Total OECD	21.9	21.6	21.8	21.5	20.8	21.0	21.3	20.9	20.9	19.8	19.7	20.3	20.2	20.0	20.1	20.6	20.2
NON-OECD SUPPLY																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.5	11.5	11.7	11.9	11.6	11.7	12.1	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	0.1	0.1	0.1	0.1
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	3.7	3.7	3.7	3.7	3.7
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	4.0	4.1	4.1	4.1	4.1	4.2	4.3	4.3	4.3	4.3	4.3	4.4	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	1.8	1.9	1.8	1.8	1.8	1.8	1.8
Africa	3.0	3.0	3.3	3.3	3.4	3.5	3.4	3.5	3.5	3.8	3.9	3.7	3.9	4.0	4.2	4.3	4.1
Total Non-OECD	24.5	25.7	26.5	26.8	27.3	27.5	27.0	27.5	27.7	28.2	28.4	28.0	28.4	28.9	29.3	29.8	29.1
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	49.8	50.0	50.1	50.6	50.7	51.3	52.3	51.2
OPEC																	
Crude[4]	25.4	27.1	27.9	28.4	29.5	29.8	28.9	29.3	29.8	30.0	29.9	29.8	29.9				
NGLs	3.4	3.5	3.9	3.9	3.9	4.0	3.9	4.1	4.2	4.2	4.3	4.2	4.3	4.4	4.5	4.5	4.5
Total OPEC	28.8	30.6	31.8	32.3	33.5	33.8	32.8	33.4	33.9	34.3	34.2	34.0	34.2				
Total Supply[5]	76.9	79.7	81.8	82.4	83.3	84.2	82.9	83.7	84.4	84.0	84.2	84.1	84.8				
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	-0.4	0.1	-0.6	0.9	0.4	-0.3	0.1	0.0	0.9	0.2	-0.6	0.1	0.2				
Government	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.3	0.0	-0.1	0.1	0.0				
Total	-0.3	0.3	-0.4	0.9	0.5	-0.2	0.2	0.1	1.2	0.2	-0.7	0.2	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	0.0	0.1	-0.1	0.1				
Miscellaneous to balance[6]	-0.6	-0.1	-0.1	0.3	0.4	-0.2	0.1	-0.6	0.6	0.5	0.6	0.3	-0.6				
Total Stock Ch. & Misc	-0.9	0.3	-0.7	1.1	1.2	-0.1	0.4	-0.9	1.9	0.7	0.0	0.4	-0.2				
Memo items:																	
Call on OPEC crude + Stock ch.[7]	26.3	26.8	28.6	27.2	28.4	29.9	28.5	30.2	27.9	29.4	29.9	29.3	30.1	28.4	28.8	29.5	29.2
Total Demand ex. FSU	74.3	75.7	79.1	77.6	78.4	80.2	78.8	80.8	78.8	79.5	80.3	79.9	81.1	79.9	80.9	82.3	81.0
Total demand exc. FSU (% ch)[8]	1.1	1.9	3.9	5.2	3.8	3.5	4.1	2.2	1.6	1.5	0.1	1.3	0.4	1.4	1.7	2.5	1.5

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 As of the March 2006 OMR, Venezuelan Orinoco heavy crude production is included within Venezuelan crude estimates. Orimulsion fuel remains within the OPEC NGL & non-conventional 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

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	-	-	0.1	-	0.1	-0.1	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-
Total OECD	-	-	-	-	-	-	-	0.1	-	-	0.1	-	0.1	-0.1	-0.1	-0.1	-0.1
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	-	0.1
Latin America	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	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	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-
Total Non-OECD	-	-	-	0.1	0.1	-	-	-	0.1	0.1	-	-	-	0.3	0.1	-	0.1
Total Demand	-	-	-	0.1	0.1	-	-	0.1	0.1	-	-	0.1	0.1	0.2	-	-0.1	0.1
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	0.1	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.2	-	-0.1	-0.1
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.2	-	-0.1	-0.1
OPEC																	
Crude	-	-	-0.5	-0.1	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.1				
NGLs	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total OPEC	-	-	-0.4	-	0.1	-	-0.1	-	-	-	-	-	0.2				
Total Supply	-	-	-0.4	-	0.1	-	-0.1	0.1	-	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	-	-	-	-	-	-	-	-	-	-	-	-	-				
Miscellaneous to balance	-	-	-0.4	-0.1	0.1	0.1	-0.1	-0.1	-0.1		-	-	0.1				
Total Stock Ch. & Misc	-	-	-0.4	-0.1	0.1	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	-0.1	-0.1	-	0.3	-0.1	-0.2	-
Total Demand ex. FSU	-	-	-	0.1	0.1	-	-	0.1	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	25.22	25.03	25.41	25.67	25.34	25.53	25.30	25.47	25.40	25.42	25.10	25.49	25.86	26.01	25.62
Europe	15.43	15.66	15.20	15.60	16.02	15.62	15.66	15.29	15.68	15.79	15.61	15.89	15.10	15.57	15.84	15.60
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.10	8.12	8.83	8.63	9.34	8.05	8.21	8.98	8.64
Total OECD	48.65	50.17	48.13	49.17	50.47	49.49	50.68	48.69	49.27	50.02	49.66	50.33	48.64	49.64	50.82	49.86
FSU	3.59	3.52	3.72	3.79	4.00	3.76	3.82	3.71	3.79	3.89	3.80	3.87	3.68	3.82	4.03	3.85
Europe	0.69	0.75	0.70	0.65	0.71	0.70	0.77	0.71	0.66	0.72	0.72	0.79	0.72	0.67	0.73	0.73
China	5.58	6.28	6.53	6.32	6.60	6.43	6.55	6.41	6.63	6.76	6.59	6.71	6.96	6.97	7.20	6.96
Other Asia	8.06	8.56	8.68	8.46	8.89	8.65	8.93	8.88	8.68	8.75	8.81	8.90	8.93	8.75	8.98	8.89
Latin America	4.67	4.80	4.96	5.05	4.98	4.95	4.95	5.11	5.17	5.09	5.08	5.06	5.22	5.30	5.21	5.20
Middle East	5.41	5.71	5.73	6.02	5.76	5.81	6.04	6.07	6.34	6.07	6.13	6.38	6.40	6.66	6.41	6.46
Africa	2.69	2.80	2.82	2.72	2.82	2.79	2.89	2.91	2.79	2.90	2.87	2.96	2.98	2.85	2.97	2.94
Total Non-OECD	30.68	32.42	33.14	33.01	33.77	33.09	33.95	33.81	34.05	34.19	34.00	34.67	34.90	35.03	35.53	35.04
World	79.33	82.60	81.28	82.18	84.24	82.58	84.63	82.50	83.32	84.20	83.66	85.01	83.54	84.67	86.35	84.90
of which:																
US50	*20.03*	*20.60*	*20.54*	*20.82*	*20.97*	*20.73*	*20.80*	*20.66*	*20.86*	*20.75*	*20.77*	*20.48*	*20.91*	*21.14*	*21.22*	*20.94*
Euro4	*8.30*	*8.39*	*8.10*	*8.36*	*8.48*	*8.34*	*8.29*	*8.04*	*8.34*	*8.30*	*8.24*	*8.48*	*7.89*	*8.21*	*8.27*	*8.21*
Japan	*5.50*	*5.98*	*4.87*	*5.12*	*5.45*	*5.35*	*6.05*	*4.99*	*5.08*	*5.51*	*5.41*	*6.01*	*4.96*	*5.11*	*5.58*	*5.41*
Korea	*2.18*	*2.30*	*2.02*	*2.00*	*2.27*	*2.15*	*2.40*	*2.06*	*2.00*	*2.22*	*2.17*	*2.27*	*2.01*	*2.03*	*2.29*	*2.15*
Mexico	*1.95*	*1.96*	*1.96*	*1.95*	*2.01*	*1.97*	*2.01*	*2.08*	*2.04*	*2.07*	*2.05*	*2.06*	*2.06*	*2.11*	*2.13*	*2.09*
Canada	*2.21*	*2.30*	*2.20*	*2.31*	*2.35*	*2.29*	*2.35*	*2.23*	*2.23*	*2.22*	*2.25*	*2.19*	*2.19*	*2.26*	*2.29*	*2.23*
Brazil	*2.04*	*2.06*	*2.12*	*2.21*	*2.18*	*2.14*	*2.11*	*2.17*	*2.24*	*2.20*	*2.18*	*2.16*	*2.22*	*2.30*	*2.26*	*2.23*
India	*2.48*	*2.64*	*2.64*	*2.44*	*2.61*	*2.58*	*2.73*	*2.60*	*2.48*	*2.57*	*2.59*	*2.74*	*2.69*	*2.53*	*2.65*	*2.65*
Annual Change (% per annum)																
North America	1.7	3.1	3.8	2.9	3.4	3.3	1.2	1.1	0.2	-1.1	0.3	-1.7	0.8	1.5	2.4	0.8
Europe	1.0	1.4	0.4	0.9	2.3	1.3	0.0	0.6	0.5	-1.4	-0.1	1.5	-1.2	-0.7	0.3	0.0
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.5	-0.5	0.6	1.2	-1.6	-0.7	1.2	1.7	0.1
Total OECD	1.4	1.1	1.7	2.2	1.9	1.7	1.0	1.2	0.2	-0.9	0.3	-0.7	-0.1	0.8	1.6	0.4
FSU	3.2	-8.2	16.1	10.6	2.8	4.7	8.7	-0.2	0.0	-2.7	1.3	1.4	-0.9	0.8	3.5	1.2
Europe	3.8	2.3	2.3	2.5	2.4	2.4	2.1	2.1	1.7	1.6	1.9	2.5	1.4	1.6	1.6	1.8
China	11.1	18.0	23.4	9.2	12.0	15.4	4.3	-1.9	4.9	2.4	2.4	2.5	8.6	5.3	6.5	5.7
Other Asia	1.3	7.7	10.0	6.1	5.4	7.3	4.3	2.3	2.5	-1.6	1.8	-0.3	0.6	0.8	2.6	0.9
Latin America	-1.7	6.7	6.8	5.6	4.5	5.9	3.2	3.0	2.4	2.1	2.7	2.1	2.2	2.4	2.4	2.3
Middle East	2.0	7.3	10.7	6.4	5.6	7.4	5.8	5.8	5.3	5.4	5.6	5.5	5.4	5.1	5.6	5.4
Africa	1.2	3.4	4.0	4.0	3.2	3.7	3.3	3.3	2.5	2.7	3.0	2.4	2.3	2.4	2.4	2.4
Total Non-OECD	2.9	6.8	11.9	6.9	6.0	7.8	4.7	2.0	3.2	1.2	2.8	2.1	3.2	2.9	3.9	3.0
World	2.0	3.3	5.6	4.1	3.5	4.1	2.5	1.5	1.4	0.0	1.3	0.4	1.3	1.6	2.6	1.5
Annual Change (mb/d)																
North America	0.40	0.76	0.93	0.70	0.85	0.81	0.31	0.27	0.06	-0.28	0.09	-0.43	0.19	0.39	0.61	0.20
Europe	0.16	0.22	0.05	0.14	0.36	0.20	-0.01	0.08	0.08	-0.23	-0.02	0.23	-0.19	-0.11	0.04	-0.01
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.20	-0.04	0.06	0.10	-0.15	-0.05	0.10	0.15	0.01
Total OECD	0.69	0.57	0.79	1.07	0.92	0.84	0.50	0.56	0.10	-0.45	0.17	-0.35	-0.05	0.38	0.81	0.20
FSU	0.11	-0.31	0.52	0.36	0.11	0.17	0.31	-0.01	0.00	-0.11	0.05	0.05	-0.03	0.03	0.14	0.05
Europe	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01
China	0.56	0.96	1.24	0.53	0.71	0.86	0.27	-0.12	0.31	0.16	0.15	0.17	0.55	0.35	0.44	0.38
Other Asia	0.11	0.61	0.79	0.48	0.46	0.59	0.37	0.20	0.21	-0.14	0.16	-0.02	0.05	0.07	0.23	0.08
Latin America	-0.08	0.30	0.32	0.27	0.22	0.27	0.15	0.15	0.12	0.11	0.13	0.11	0.11	0.12	0.12	0.12
Middle East	0.11	0.39	0.55	0.36	0.31	0.40	0.33	0.34	0.32	0.31	0.32	0.33	0.33	0.33	0.34	0.33
Africa	0.03	0.09	0.11	0.11	0.09	0.10	0.09	0.09	0.07	0.08	0.08	0.07	0.07	0.07	0.07	0.07
Total Non-OECD	0.86	2.06	3.54	2.13	1.90	2.40	1.53	0.66	1.04	0.41	0.91	0.72	1.09	0.98	1.35	1.04
World	1.55	2.63	4.33	3.20	2.82	3.25	2.03	1.22	1.14	-0.04	1.08	0.38	1.05	1.35	2.15	1.24
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-	-	-	-	-	-	-	-	-	-0.02	0.09	-0.08	-0.10	-0.03
Europe	-	-	-	-	-	-	0.10	-0.02	-0.03	0.06	0.03	0.12	-0.13	0.01	0.01	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-0.01	-0.06	-0.01	-0.03	-0.03
Total OECD	-	-	-	-	-	-	0.10	-0.02	-0.03	0.06	0.03	0.09	-0.09	-0.08	-0.12	-0.05
FSU	-	-	-	-	-	-	-	-	-	0.01	-	0.01	0.05	-	-0.01	0.01
Europe	-	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03	-0.04	-0.03	-0.03	-0.03	-0.03
China	-	-	-	-	-	-	-	-	-	-	-	-	0.12	-	-	0.03
Other Asia	-	0.02	0.03	0.03	0.03	0.03	0.02	0.03	0.03	0.03	0.03	0.03	0.07	0.07	0.04	0.05
Latin America	0.01	0.07	0.08	0.08	0.07	0.07	0.08	0.08	0.08	0.08	0.08	0.06	0.09	0.09	0.09	0.08
Middle East	-	-0.02	0.06	0.01	-0.08	-0.01	-0.01	0.07	0.02	-0.05	0.01	0.01	0.08	0.02	-0.05	0.01
Africa	-0.04	-0.03	-0.04	-0.04	-0.04	-0.03	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04	-0.05	-0.05	-0.05	-0.05
Total Non-OECD	-0.03	0.02	0.10	0.05	-0.04	0.03	0.02	0.11	0.06	-0.02	0.04	0.04	0.34	0.10	-0.02	0.11
World	-0.03	0.02	0.10	0.05	-0.04	0.03	0.12	0.09	0.03	0.04	0.07	0.12	0.25	0.02	-0.14	0.06
Revisions to Oil Demand Growth from Last Month's Report (mb/d)																
World	0.00	0.10	0.09	0.04	0.03	0.07	0.10	-0.01	-0.02	0.09	0.04	0.01	0.16	-0.02	-0.18	-0.01

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2004	2005	2006	4Q05	1Q06	2Q06	3Q06	4Q06	Mar 06	Apr 06	May 06
OPEC											
Crude Oil											
Saudi Arabia	8.60	9.06		9.13	9.27				9.23	8.96	9.06
Iran	3.93	3.88		3.89	3.84				3.92	3.69	3.84
Iraq	1.99	1.81		1.66	1.71				1.81	2.00	1.91
UAE	2.35	2.46		2.60	2.61				2.67	2.61	2.56
Kuwait	2.05	2.13		2.20	2.22				2.22	2.22	2.22
Neutral Zone	0.60	0.58		0.58	0.59				0.58	0.58	0.58
Qatar	0.77	0.80		0.82	0.82				0.82	0.83	0.83
Nigeria	2.32	2.40		2.45	2.23				2.08	2.13	2.27
Libya	1.55	1.64		1.65	1.67				1.68	1.70	1.70
Algeria	1.20	1.34		1.37	1.36				1.36	1.36	1.36
Venezuela	2.59	2.71		2.65	2.63				2.60	2.63	2.60
Indonesia	0.97	0.94		0.94	0.92				0.93	0.92	0.92
Total Crude Oil	28.91	29.76		29.94	29.87				29.89	29.61	29.83
Total NGLs[1]	3.93	4.19	4.45	4.27	4.35	4.41	4.51	4.55	4.33	4.35	4.41
Total OPEC	32.84	33.95		34.21	34.22				34.22	33.97	34.24
NON-OPEC[2]											
OECD											
North America	14.58	14.09	14.29	13.65	14.16	14.19	14.31	14.47	14.06	14.10	14.12
United States	7.66	7.28	7.31	6.62	7.18	7.26	7.42	7.37	7.16	7.17	7.26
Mexico	3.83	3.76	3.70	3.72	3.78	3.76	3.67	3.61	3.78	3.81	3.73
Canada	3.09	3.06	3.27	3.30	3.20	3.17	3.22	3.49	3.11	3.12	3.14
Europe	6.10	5.64	5.41	5.51	5.58	5.25	5.27	5.53	5.50	5.19	5.37
UK	2.06	1.83	1.73	1.78	1.84	1.69	1.62	1.78	1.79	1.74	1.67
Norway	3.19	2.97	2.88	2.92	2.93	2.76	2.86	2.96	2.90	2.65	2.90
Others	0.85	0.84	0.80	0.81	0.81	0.80	0.79	0.79	0.81	0.80	0.80
Pacific	0.58	0.58	0.53	0.56	0.49	0.51	0.54	0.57	0.50	0.50	0.50
Australia	0.54	0.54	0.49	0.52	0.45	0.47	0.50	0.53	0.46	0.46	0.46
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	20.32	20.22	19.71	20.23	19.95	20.12	20.57	20.05	19.79	20.00
NON-OECD											
Former USSR	11.23	11.64	12.09	11.89	11.72	12.05	12.20	12.37	11.84	12.02	12.03
Russia	9.23	9.48	9.75	9.64	9.53	9.69	9.80	9.96	9.60	9.66	9.67
Others	2.00	2.16	2.34	2.25	2.19	2.37	2.41	2.42	2.24	2.37	2.36
Asia	6.25	6.34	6.48	6.37	6.46	6.46	6.50	6.51	6.43	6.41	6.47
China	3.48	3.62	3.70	3.59	3.68	3.69	3.72	3.73	3.70	3.68	3.67
Malaysia	0.86	0.83	0.80	0.85	0.83	0.80	0.79	0.79	0.81	0.79	0.81
India	0.80	0.77	0.81	0.75	0.77	0.80	0.82	0.83	0.75	0.77	0.82
Others	1.11	1.13	1.17	1.18	1.17	1.17	1.17	1.17	1.18	1.17	1.17
Europe	0.17	0.16	0.15	0.15	0.15	0.15	0.14	0.14	0.15	0.15	0.15
Latin America	4.08	4.29	4.46	4.32	4.33	4.39	4.48	4.62	4.33	4.36	4.40
Brazil	1.79	1.98	2.16	2.02	2.06	2.09	2.18	2.33	2.06	2.08	2.09
Argentina	0.80	0.78	0.75	0.76	0.76	0.76	0.75	0.74	0.77	0.77	0.77
Colombia	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.54	0.53	0.53	0.53
Ecuador	0.53	0.53	0.55	0.55	0.52	0.55	0.55	0.56	0.52	0.55	0.55
Others	0.42	0.47	0.46	0.47	0.47	0.46	0.46	0.46	0.46	0.45	0.46
Middle East[3]	1.93	1.86	1.80	1.84	1.81	1.81	1.80	1.79	1.80	1.83	1.81
Oman	0.80	0.79	0.75	0.78	0.76	0.76	0.75	0.74	0.75	0.78	0.75
Syria	0.49	0.46	0.43	0.44	0.44	0.43	0.43	0.42	0.44	0.44	0.43
Yemen	0.42	0.42	0.42	0.41	0.41	0.42	0.43	0.43	0.42	0.42	0.42
Africa	3.37	3.67	4.13	3.87	3.93	4.02	4.21	4.35	3.98	4.07	3.99
Egypt	0.71	0.70	0.69	0.70	0.69	0.70	0.69	0.69	0.69	0.70	0.69
Angola	0.99	1.25	1.46	1.39	1.42	1.36	1.48	1.56	1.44	1.43	1.34
Gabon	0.24	0.23	0.23	0.24	0.24	0.24	0.23	0.23	0.24	0.24	0.24
Others	1.44	1.50	1.74	1.55	1.58	1.72	1.80	1.86	1.61	1.70	1.71
Total Non-OECD	27.02	27.96	29.11	28.45	28.40	28.88	29.35	29.78	28.54	28.83	28.84
Processing Gains[4]	1.83	1.86	1.90	1.88	1.92	1.89	1.88	1.92	1.92	1.92	1.88
TOTAL NON-OPEC	50.11	50.14	51.23	50.04	50.55	50.72	51.34	52.27	50.51	50.55	50.72
TOTAL SUPPLY	82.95	84.09		84.25	84.77				84.72	84.51	84.96

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Venezuelan Orimulsion (but not Orinoco 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			
	Dec2005	Jan2006	Feb2006	Mar2006	Apr2006*	Apr2003	Apr2004	Apr2005	2Q2005	3Q2005	4Q2005	1Q2006
North America												
Crude	456.4	450.5	472.3	476.5	480.1	401.1	425.0	448.8	0.14	-0.15	0.25	0.22
Motor Gasoline	234.8	254.6	257.1	242.1	234.6	238.8	233.4	242.0	0.00	-0.19	0.08	0.08
Middle Distillate	213.0	221.6	212.9	194.4	187.5	164.5	167.5	174.4	0.17	0.08	0.16	-0.21
Residual Fuel Oil	44.5	50.6	53.2	50.6	51.3	39.4	45.8	45.6	-0.03	-0.04	0.03	0.07
Total Products[3]	657.6	688.0	677.7	636.4	631.4	589.7	596.1	635.3	0.57	-0.16	-0.06	-0.24
Total[4]	1255.5	1277.4	1285.4	1252.0	1251.1	1122.2	1157.3	1221.3	0.82	-0.19	-0.02	-0.04
Europe												
Crude	326.3	332.4	340.0	345.4	344.0	343.2	336.4	340.1	-0.06	0.01	-0.13	0.21
Motor Gasoline	113.1	120.2	120.5	112.9	109.5	113.3	111.5	118.2	-0.19	0.02	0.08	0.00
Middle Distillate	256.3	266.9	260.1	246.6	251.7	221.9	223.9	251.9	-0.03	0.18	-0.03	-0.11
Residual Fuel Oil	73.6	74.2	71.1	69.7	74.5	74.4	72.1	70.1	0.04	0.05	-0.02	-0.04
Total Products[3]	545.5	563.8	553.4	530.5	537.0	510.8	506.3	543.3	-0.22	0.24	0.04	-0.17
Total[4]	943.5	968.1	969.1	951.9	956.1	927.8	916.9	960.2	-0.31	0.31	-0.14	0.09
Pacific												
Crude	157.4	155.6	157.3	170.0	180.7	166.9	171.9	158.5	0.08	-0.09	-0.12	0.14
Motor Gasoline	22.5	24.8	25.4	25.4	25.6	25.5	26.9	25.3	-0.01	-0.02	0.00	0.03
Middle Distillate	61.0	62.6	64.0	61.7	59.0	62.0	56.6	55.1	0.11	0.21	-0.18	0.01
Residual Fuel Oil	20.5	21.3	21.1	19.2	21.9	23.8	22.7	21.5	0.02	0.01	-0.04	-0.01
Total Products[3]	167.4	168.9	172.6	170.3	172.8	175.1	164.5	164.1	0.20	0.20	-0.26	0.03
Total[4]	393.8	392.3	396.3	410.0	423.8	411.6	405.4	391.8	0.36	0.11	-0.42	0.18
Total OECD												
Crude	940.2	938.5	969.5	991.9	1004.8	911.2	933.2	947.4	0.16	-0.22	0.00	0.57
Motor Gasoline	370.3	399.6	403.0	380.4	369.7	377.6	371.8	385.5	-0.19	-0.19	0.16	0.11
Middle Distillate	530.3	551.1	536.9	502.6	498.1	448.3	447.9	481.4	0.26	0.47	-0.06	-0.31
Residual Fuel Oil	138.6	146.1	145.4	139.6	147.7	137.6	140.5	137.1	0.03	0.01	-0.03	0.01
Total Products[3]	1370.5	1420.7	1403.7	1337.1	1341.2	1275.6	1267.0	1342.7	0.54	0.29	-0.28	-0.37
Total[4]	2592.7	2637.8	2650.8	2613.9	2631.0	2461.5	2479.6	2573.3	0.87	0.23	-0.58	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			
	Dec2005	Jan2006	Feb2006	Mar2006	Apr2006*	Apr2003	Apr2004	Apr2005	2Q2005	3Q2005	4Q2005	1Q2006
North America												
Crude	684.5	683.5	684.8	686.1	687.6	599.6	658.2	691.9	0.09	-0.03	-0.10	0.02
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	166.9	169.5	170.2	170.2	170.2	151.3	157.4	164.4	0.01	0.02	0.00	0.04
Products	239.0	235.9	235.2	235.9	235.9	205.8	208.6	208.6	0.26	0.02	0.02	-0.03
Pacific												
Crude	381.6	380.0	380.0	380.4	380.4	383.0	386.8	384.5	-0.01	-0.01	-0.01	-0.01
Products	11.5	11.6	11.3	11.4	11.4	9.6	11.0	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1233.0	1233.0	1234.9	1236.7	1238.2	1133.9	1202.3	1240.8	0.09	-0.02	-0.11	0.04
Products	252.5	249.5	248.5	249.3	249.3	217.3	221.6	221.7	0.26	0.02	0.02	-0.04
Total[4]	1486.5	1483.4	1484.5	1487.0	1488.5	1352.2	1424.9	1463.5	0.35	0.00	-0.08	0.01

* 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 2005		End June 2005		End September 2005		End December 2005		End March 2006 [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	164.8	74	164.7	74	170.5	77	178.1	81	182.4	-
Mexico	44.2	21	45.6	22	52.8	25	43.9	21	41.9	-
United States[4]	1658.8	81	1740.5	84	1707.4	82	1697.9	83	1693.7	-
Total[4]	1889.9	75	1972.9	78	1952.9	77	1942.0	78	1940.0	76
Pacific										
Australia	34.8	38	35.7	40	34.1	37	32.7	36	35.5	-
Japan	604.9	121	629.4	124	637.9	116	612.1	102	620.1	-
Korea	137.4	67	142.5	71	145.4	65	134.9	59	137.4	-
New Zealand	7.9	53	9.0	64	7.9	49	7.2	48	8.8	-
Total	785.0	97	816.6	101	825.3	93	786.8	84	801.8	100
Europe[5]										
Austria	20.6	70	20.2	67	19.9	68	19.0	69	19.3	-
Belgium	26.9	48	27.8	53	30.3	48	28.6	43	28.6	-
Czech Republic	17.0	78	15.9	70	16.7	79	18.8	99	19.6	-
Denmark	16.3	89	17.2	96	20.5	111	20.3	102	19.5	-
Finland	26.2	125	27.0	122	27.3	124	25.1	113	26.7	-
France	187.4	99	185.6	94	191.4	99	195.6	94	196.2	-
Germany	280.2	111	279.5	102	275.8	106	282.6	111	279.9	-
Greece	35.7	96	32.6	83	34.6	74	33.1	67	36.5	-
Hungary	19.6	137	17.0	109	17.1	108	17.6	126	20.8	-
Ireland	10.6	58	11.6	63	13.2	65	11.6	55	13.3	-
Italy	133.7	75	132.1	75	137.0	73	132.0	68	131.5	-
Luxembourg	0.9	13	0.8	13	0.8	12	0.8	11	0.9	-
Netherlands	109.4	103	116.6	114	115.7	115	116.4	116	120.5	-
Norway	29.2	130	21.0	88	30.2	99	30.7	112	21.5	-
Poland	33.9	79	34.5	72	33.8	71	35.2	80	35.5	-
Portugal	25.6	77	26.5	77	26.8	81	25.7	77	24.7	-
Slovak Republic	7.0	99	6.5	85	6.4	83	6.4	79	8.3	-
Spain	126.7	80	129.4	82	131.7	84	128.6	79	130.2	-
Sweden	32.0	88	35.4	99	34.6	94	38.0	101	38.2	-
Switzerland	37.1	147	38.0	135	38.9	137	37.7	129	37.7	-
Turkey	55.4	80	52.2	76	50.8	82	51.2	103	51.6	-
United Kingdom	102.2	55	102.3	54	108.7	59	95.6	51	97.9	-
Total	1333.5	87	1329.7	85	1362.1	87	1350.4	85	1359.0	90
Total OECD	4008.4	83	4119.2	84	4140.2	83	4079.2	81	4100.8	84
DAYS OF IEA Net Imports[6]	-	113	-	116	-	116	-	114	-	115

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 2006 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]*		
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	4016	1435	2581	80	28	51
4Q2004	4000	1450	2550	79	29	51
1Q2005	4008	1462	2546	83	30	52
2Q2005	4119	1494	2625	84	30	53
3Q2005	4140	1494	2646	83	30	53
4Q2005	4079	1487	2593	81	30	52
1Q2006	4101	1487	2614	84	31	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 1Q2006 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	Jan 06	Feb 06	Mar 06	Year Earlier Mar 05	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.55	0.46	0.45	0.41	0.52	0.51	0.40	0.58	0.55	0.42	0.13
Europe	1.00	1.03	0.90	0.88	0.92	0.91	0.80	0.80	0.87	0.72	0.76	-0.05
Pacific	1.18	1.24	1.31	1.22	1.25	1.37	1.40	1.33	1.38	1.47	1.33	0.14
Saudi Medium												
North America	0.83	0.80	0.81	0.89	0.58	0.81	0.65	0.60	0.68	0.66	1.00	-0.34
Europe	0.11	0.11	0.16	0.13	0.20	0.16	0.16	0.19	0.14	0.14	0.11	0.03
Pacific	0.24	0.23	0.26	0.24	0.27	0.32	0.37	0.35	0.43	0.33	0.21	0.12
Saudi Heavy												
North America	0.30	0.22	0.17	0.15	0.20	0.16	0.21	0.22	0.22	0.20	0.15	0.05
Europe	0.19	0.23	0.23	0.20	0.27	0.26	0.14	0.09	0.16	0.16	0.19	-0.04
Pacific	0.16	0.15	0.25	0.20	0.26	0.29	0.25	0.23	0.32	0.22	0.33	-0.11
Iraqi Basrah Light[2]												
North America	0.44	0.71	0.60	0.69	0.56	0.59	0.44	0.46	0.38	0.48	0.53	-0.05
Europe	0.09	0.21	0.23	0.19	0.24	0.31	0.24	0.29	0.19	0.23	0.24	-0.02
Pacific	0.03	0.12	0.06	0.06	0.06	0.06	0.08	0.08	0.04	0.12	..	..
Iraqi Kirkuk												
North America	0.06	0.02	..	..	..	..	..	..	..	..	..	..
Europe	0.12	0.08	0.05	0.04	0.13	0.03	..	..	..	..	0.02	..
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.19	0.24	0.20	0.18	0.16	0.22	0.19	0.12	0.23	0.23	0.24	-0.01
Pacific	0.17	0.16	0.15	0.13	0.14	0.15	0.19	0.16	0.21	0.20	0.23	-0.04
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.59	0.57	0.63	0.63	0.71	0.57	0.46	0.50	0.54	0.33	0.48	-0.14
Pacific	0.69	0.65	0.62	0.59	0.52	0.63	0.64	0.52	0.73	0.69	0.82	-0.13
Venezuelan Light & Medium												
North America	0.69	0.67	0.82	0.88	0.79	0.81	0.75	0.71	0.79	0.76	0.80	-0.03
Europe	0.02	0.01	0.04	0.03	0.06	0.07	0.12	0.11	0.06	0.17	..	..
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.60	0.88	0.72	0.82	0.66	0.56	0.70	0.80	0.69	0.63	0.79	-0.17
Europe	0.06	0.05	0.06	0.06	0.08	0.06	0.08	0.10	0.06	0.08	0.05	0.03
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	1.32	1.36	1.27	1.36	1.17	1.25	1.26	1.22	1.25	1.32	1.30	0.02
Europe	0.16	0.16	0.17	0.17	0.16	0.18	0.13	0.14	0.13	0.13	0.15	-0.02
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.00	..	0.03	0.00	0.02	0.10	0.09	0.07	0.10	0.10	0.01	0.10
Europe	0.00	0.01	0.03	0.01	0.02	0.05	0.01	0.02	..	0.00	0.03	-0.03
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.14	0.12	0.13	0.14	0.16	0.09	..	..	..	..	0.18	..
Europe	1.62	1.86	1.77	1.93	1.76	1.69	1.64	1.62	1.54	1.75	1.85	-0.11
Pacific	0.00	0.01	0.00	0.00	0.01	..	..	..	..	..	..	..
Nigerian Light[4]												
North America	0.63	0.80	0.90	0.88	0.94	0.90	0.87	0.84	1.00	0.77	0.79	-0.02
Europe	0.41	0.28	0.35	0.27	0.41	0.41	0.28	0.22	0.36	0.26	0.22	0.04
Pacific	0.08	0.11	0.05	0.06	0.07	0.02	0.09	0.14	0.10	0.03	0.05	-0.02
Nigerian Medium												
North America	0.17	0.23	0.17	0.22	0.13	0.15	0.19	0.19	0.22	0.16	..	..
Europe	0.06	0.04	0.07	0.04	0.08	0.07	0.08	0.07	0.10	0.07	0.08	-0.01
Pacific	0.01	0.01	0.01	0.02	..	..	..	..	..	..	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)

	2003	2004	2005	2Q2005	3Q2005	4Q2005	1Q2006	Jan-06	Feb-06	Mar-06	Year Earlier Mar-05	Year Earlier % change
Crude Oil												
North America	8069	8431	8384	8614	8251	8101	7737	7594	7842	7786	8588	-10%
Europe	9096	9477	9806	9506	10082	9937	9415	9704	9425	9116	9119	0%
Pacific	6711	6659	6801	6434	6643	6967	7387	7250	7341	7567	7264	4%
Total OECD	23876	24568	24992	24555	24975	25005	24539	24548	24608	24469	24972	-2%
LPG												
North America	27	24	18	3	18	30	8	4	12	7	20	-200%
Europe	193	225	217	149	207	220	276	299	225	299	280	6%
Pacific	541	541	527	591	500	486	651	593	725	642	537	16%
Total OECD	760	790	762	742	725	736	934	897	961	947	837	12%
Naphtha												
North America	67	99	110	89	151	76	41	71	16	32	142	-339%
Europe	305	282	269	231	287	279	334	335	361	308	289	6%
Pacific	770	769	746	759	693	760	692	701	746	634	755	-19%
Total OECD	1142	1150	1125	1080	1132	1115	1067	1108	1123	974	1185	-22%
Gasoline[3]												
North America	669	794	1016	1020	1046	1148	1120	1074	1151	1139	823	28%
Europe	150	137	161	145	207	119	197	224	222	147	152	-3%
Pacific	70	105	102	130	93	90	78	81	69	83	107	-29%
Total OECD	888	1035	1279	1294	1346	1357	1395	1379	1442	1368	1082	21%
Jet & Kerosene												
North America	97	101	130	43	139	268	80	119	18	98	89	9%
Europe	271	293	361	361	438	371	320	351	279	326	256	21%
Pacific	102	77	66	72	48	49	132	138	179	83	110	-33%
Total OECD	470	471	557	476	625	687	532	608	476	506	456	10%
Gasoil/Diesel												
North America	126	123	142	92	99	267	210	350	164	110	54	51%
Europe	652	751	830	718	807	867	1092	1087	1110	1080	1038	4%
Pacific	73	74	79	94	79	83	77	74	97	63	63	1%
Total OECD	850	947	1052	903	984	1217	1379	1511	1371	1253	1155	8%
Heavy Fuel Oil												
North America	326	453	525	433	566	610	481	607	499	340	438	-29%
Europe	398	405	495	550	528	487	521	457	597	516	522	-1%
Pacific	88	76	85	82	90	82	124	122	127	122	84	31%
Total OECD	812	935	1105	1065	1185	1180	1125	1186	1222	978	1044	-7%
Other Products												
North America	680	872	1005	1064	1166	1049	972	1121	1051	751	690	8%
Europe	690	676	780	810	801	786	886	898	827	926	804	13%
Pacific	235	256	247	248	225	263	284	285	262	304	236	22%
Total OECD	1605	1805	2032	2121	2192	2098	2142	2304	2140	1981	1730	13%
Total Products												
North America	1991	2466	2947	2745	3185	3447	2911	3347	2909	2477	2257	9%
Europe	2657	2767	3114	2963	3275	3130	3625	3651	3622	3601	3340	7%
Pacific	1879	1898	1852	1975	1728	1812	2038	1995	2205	1931	1892	2%
Total OECD	6527	7132	7913	7682	8188	8389	8574	8993	8736	8008	7489	6%
Total Oil												
North America	10061	10897	11332	11359	11436	11548	10648	10941	10751	10262	10845	-6%
Europe	11753	12245	12920	12469	13357	13067	13039	13355	13047	12717	12459	2%
Pacific	8590	8558	8653	8409	8370	8779	9425	9244	9546	9498	9156	4%
Total OECD	30403	31700	32905	32237	33163	33394	33113	33541	33344	32477	32460	0%

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

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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 (©2006 Platt's - a division of McGraw-Hill Inc.).

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OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

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INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

12 July 2006

HIGHLIGHTS

- Benchmark NYMEX WTI crude futures rallied above $75/bbl in early July driven by strong gasoline prices, refinery problems and geopolitical uncertainty. Supply constraints remain in Nigeria, although Iraq's northern pipeline is providing additional supplies. Headline-driven reactions to developments involving Iran's nuclear programme continue to have a major impact on market sentiment.

- World oil product demand growth is largely unchanged for 2006, at 1.21 mb/d, as weak 2Q06 OECD consumption is counterbalanced by Chinese demand strength. Demand projections for 2007 show growth of 1.57 mb/d based on recoveries in North America and Southeast Asia.

- Non-OPEC oil supply growth accelerates to 1.7 mb/d in 2007 from 1.1 mb/d in 2006. Supply (including biofuels) averages 53.0 mb/d next year. The FSU and Africa account for 60% of growth, and the Americas for 30%. New oilfields and an assumed rebound after severe 2005/2006 outages underpin the increase in 2007. The North Sea and OECD Pacific also see a temporary respite in 2007 from recent declines.

- OPEC June crude supply rose 200 kb/d from May to reach 29.8 mb/d after Iraqi exports resumed from Ceyhan. OPEC capacity is seen rising by 300 kb/d by end-2006 and a further 800 kb/d in 2007. Inclusion of biofuel supply and weaker demand trim the 'call on OPEC crude and stock change' to 28.8 mb/d for 2006. The 2007 call on OPEC ranges between 28.4-29.2 mb/d when allowing for non-OPEC slippage and statistical differences.

- OECD total industry oil stocks built by 42 mb in May to 2,673 mb, or 7 mb above last year. The build was centred in product inventories in North America, where increased refinery output added to supplies. In the Pacific, crude stocks rose on seasonal refinery maintenance, while milder weather contributed to a build in middle distillate inventories. OECD forward demand came to 54 days, on par with last month and a year ago.

Next Issue: 11 August 2006

CONTENTS

HIGHLIGHTS....1

CONTENTS....2

HAPPY 2007?....3

DEMAND....4
- Summary....4
- OECD....5
  - Overview....5
  - North America....6
  - Europe....7
  - Pacific....7
- Non-OECD....8
  - China....8
  - Other Non-OECD....8

SUPPLY....10
- Summary....10
- The 2007 Outlook for Non-OPEC Supply....11
- Revisions to 2006 Non-OPEC Estimates....13
- OPEC Crude Supply in June....14

OECD STOCKS....18
- Summary....18
  - **O**ECD Industry Stock Changes in May 2006....19
  - OECD North America....19
  - OECD Europe....19
  - OECD Pacific....20
- OECD Inventory Position at End-May and Revisions to Preliminary Data....20
- Recent Developments in ARA Independent Storage....21
- Recent Developments in Singapore Stocks....21

PRICES....23
- Summary....23
- Overview....23
- Spot Crude Oil Prices....24
  - Delivered Crude Prices in April....25
- Spot Product Prices....25
  - End-User Product Prices in June....28
  - Freight....28

REFINERY ACTIVITY....30
- Summary....30
- Refining Margins....30
  - OECD North America....30
  - OECD Europe....31
  - Asia....32
- Refinery Throughput....34
  - OECD North America....34
  - OECD Europe....34
  - OECD Pacific....35
  - Offline Refinery Capacity....36
  - Non-OECD Throughputs....36

TABLES....37

OIL MARKET REPORT CONTACTS

HAPPY 2007?

In July, the *Oil Market Report (OMR)* traditionally rolls forward its projections into the following year. Alongside this report, aside from the standard rollover, we are also providing a new annual supplement *Medium-Term Oil Market Report (MTOMR)* covering the outlook through to 2011. It is hoped that this report will provide a useful bridge between the *OMR* and the long-term analysis in the *World Energy Outlook (WEO)* for the industry, economists and policymakers.

The medium-term work has afforded the opportunity to look more in depth into certain areas. The five-year forward field-by-field supply projections are customarily produced as a feed to the *WEO*, but we have now added the other parts of the equation. Aside from extending the product-by-product demand projections from the OECD to a global perspective, we have also been expanding our work on the refining sector and biofuels. Combining the two has enabled us to track potential product supply issues.

The recent explosion of private-sector interest and government policy targets suggests that biofuels will grow rapidly in the coming years. As these are effectively a source of refined product supply, they have the potential to make a small, but significant, contribution to ease current product tightness. But they could also lead to some minor data quality issues. Biofuels are included within the country demand projections for the US, Brazil and for the others as an annual average in the non-OPEC supply section. There are two issues here - firstly that biofuels will not necessarily arrive in a steady flow throughout the year and secondly, as with any new dataset, there is the possibility that errors emerge in monthly submissions to the IEA.

Looking at the balances, the key underlying demand-side fundamentals in our 2007 projections are little changed. We assume marginally lower GDP growth, predominantly due to a moderation of strong growth in the US. However, the assumption of normal weather conditions results in a strong recovery in the US in the first quarter of 2007, following a particularly mild start to 2006. Furthermore, while high prices are expected to continue to temper global demand growth, the price-related impact will fall slightly as the year-on-year change moderates. In late 2005/early 2006, sharp rises in state-administered retail prices in some non-OECD countries depressed demand growth, but these effects should moderate in early 2007. Overall, the outlook shows demand growth rising from 1.2 mb/d in 2006 to 1.6 mb/d in 2007.

Non-OPEC supplies should make a further leap forward in 2007. Following zero growth in 2005, non-OPEC output rises by 1.1 mb/d in 2006 and by 1.7 mb/d in 2007. In growth terms, we expect that the large projected jump in Q4 2006 supplies will lead to strong year-on-year growth in the first three quarters of 2007, and the fourth quarter will again see the start-up of a large number of new projects. Biofuels are also included within the non-OPEC supply figure, rising from 700 kb/d in 2006 to 890 kb/d in 2007. Of this 190 kb/d increment, 70 kb/d comes from biodiesel and 55 kb/d and 22 kb/d respectively from ethanol in the US and Brazil.

Combined with a 300 kb/d increase in OPEC NGL supplies in 2007, supply growth is estimated at 2.0 mb/d in 2007, which should lead to a marginal decline in the call on OPEC from 28.8 mb/d to 28.4 mb/d. Non-OPEC supplies are of course subject to the usual proviso that they are projected on a 'business-as-usual' basis, from which there has on average been 300-400 kb/d of downside risk. Adjusting for this and the current eight-quarter miscellaneous-to-balance gives an adjusted call on OPEC of 29.2 mb/d. In reality, the actual call will most likely fall somewhere between the two.

Current high prices are also related to product supply tightness: OECD gasoline stocks as a percentage of forward demand were below their five-year average level in April and May, while OECD crude stocks were well above normal. But that may change. This report's refinery analysis shows 1.5 mb/d and 1.0 mb/d globally of new refinery capacity (including capacity creep) being added in 2006 and 2007 respectively, together with the cumulative addition of 1.0 mb/d of upgrading capacity. This should bolster product supplies, particularly of gasoline and middle distillate.

Overall, 2007 appears to show potential improvements in crude, biofuel and finished product supplies relative to demand. While this should, in theory, help to ease some price pressures, geopolitical issues will not go away. Further, it is difficult to see market nerves being calmed until the summer driving season is out of the way, the hurricane season is over and the anticipated surge in second half 2006 non-OPEC supplies materialises.

DEMAND

Summary

- **Global oil product demand** is expected to grow by 1.2 mb/d (1.4%) in 2006 to 84.8 mb/d. For 2007, demand should expand by 1.6 mb/d (1.8%) to 86.4 mb/d, based on a continued robust global economic outlook and the rebound of North American and non-OECD Asian demand. Nevertheless, this is well below the exceptional growth of 3.2 mb/d (4.0%) in 2004.

Global Oil Demand from 2005 to 2007

	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)	84.6	82.4	83.2	84.1	83.6	84.9	83.3	84.7	86.3	84.8	86.7	84.9	86.1	87.7	86.4
Annual Change (%)	2.6	1.5	1.4	-0.1	1.3	0.4	1.0	1.8	2.6	1.4	2.1	2.0	1.7	1.7	1.8
Annual Change (mb/d)	2.1	1.2	1.1	-0.1	1.1	0.3	0.8	1.5	2.2	1.2	1.8	1.7	1.4	1.4	1.6
Changes from last month's report (mb/d)	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	0.0	-0.1	-0.1					

- **OECD oil product demand** should expand by 0.1 mb/d (0.3%) in 2006 to 49.7 mb/d. For 2007, demand is expected to increase by 0.4 mb/d (0.8%) to 50.0 mb/d. North America will account for the bulk of demand growth, in part because temperatures were unusually mild in 1Q06. First quarter 2007 demand is expected to exceed the weather-affected 1Q06 baseline by some 800 kb/d. By contrast, as Europe was unusually cold in 1Q06, its oil product demand is forecast to decline by 250 kb/d in 1Q07.

Global Oil Demand by Region
(million barrels per day)

	Demand		Annual Change			Annual Change (%)		
	2006	2007	2005	2006	2007	2005	2006	2007
North America	25.62	26.01	0.09	0.16	0.39	0.3	0.6	1.5
Europe	16.18	16.18	0.01	-0.01	0.00	0.0	-0.1	0.0
OECD Pacific	8.59	8.60	0.10	0.00	0.01	1.2	0.0	0.1
China	7.03	7.42	0.17	0.41	0.39	2.6	6.1	5.5
Other Asia	8.90	9.14	0.16	0.10	0.23	1.8	1.2	2.6
Subtotal Asia	24.52	25.15	0.43	0.51	0.63	1.8	2.1	2.6
FSU	3.85	3.88	0.05	0.05	0.03	1.3	1.3	0.8
Middle East	6.47	6.81	0.32	0.33	0.34	5.6	5.4	5.3
Africa	2.95	3.02	0.08	0.07	0.07	3.0	2.4	2.4
Latin America	5.21	5.32	0.13	0.10	0.11	2.7	2.0	2.1
World	84.80	86.37	1.11	1.21	1.57	1.3	1.4	1.8

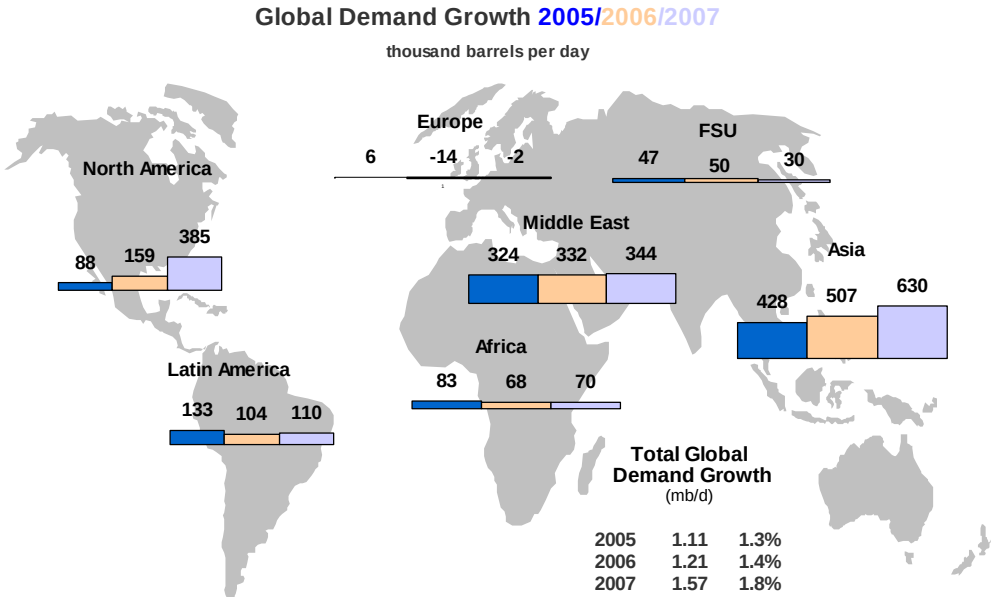
- **Non-OECD oil product demand** is projected to rise by 1.1 mb/d (3.2%) in 2006 to 35.1 mb/d. For 2007, demand is forecast to increase by 1.2 mb/d (3.4%) to 36.3 mb/d. China and the Middle East will continue to expand at a rapid pace, and non-OECD Asia will rebound from a relatively weak 2006. Recent increases to administered retail prices in key consuming counties in non-OECD Asia temporarily slowed oil product demand growth, but growth should return as the region's economies continue their rapid expansion. Overall, non-OECD demand will account for 75% of global demand growth in 2007.

Preliminary Inland Deliveries - May 2006[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]	9.33	0.8	1.66	6.0	2.99	1.0	1.09	-0.8	0.78	8.2	5.2	13.4	21.00	4.3
Mexico	0.73	10.8	0.06	3.4	0.36	13.8	0.00	na	0.26	-27.0	0.4	0.8	1.77	1.4
Japan	1.00	0.9	0.29	-7.7	0.56	0.7	0.35	-8.2	0.42	8.8	1.4	-7.2	3.99	-2.8
Korea	0.16	-1.2	0.06	9.1	0.40	0.0	0.03	-17.9	0.21	-5.9	1.1	12.2	1.96	5.5
France	0.25	-7.5	0.13	2.3	0.65	2.8	0.17	-12.3	0.04	0.3	0.5	-0.5	1.71	-1.5
Germany	0.54	-6.6	0.17	-9.4	0.60	2.6	0.45	1.1	0.11	7.2	0.5	6.6	2.36	0.1
Italy	0.31	-6.2	0.09	16.4	0.54	5.5	0.07	-3.8	0.12	-2.7	0.4	-2.0	1.55	0.4
Total	**12.31**	**0.6**	**2.46**	**3.2**	**6.10**	**2.3**	**2.16**	**-3.1**	**1.94**	**-0.6**	**9.4**	**7.4**	**34.33**	**2.5**

Sources: US EIA, 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.
Note: Monthly US demand data are subject to revision, as discussed in the Reports dated 13 July and 11 August 2005.

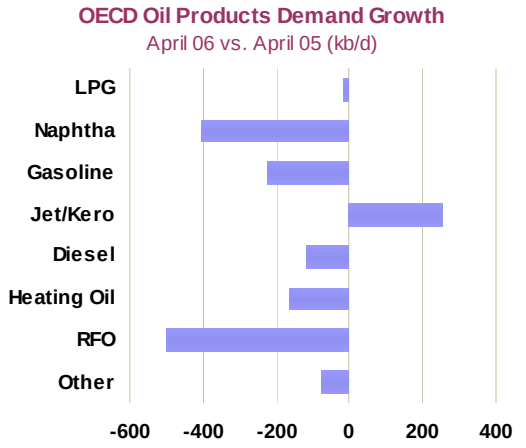
- **Under a regional comparison**, China will rise at the fastest pace (5.5%) in 2007, closely followed by the Middle East (5.3%). North America accounts for the largest share of oil product consumption, representing 30.1% of total world demand, compared with 8.6% for China and 7.9% for the Middle East. However, North America will account for only 25% of global demand growth in 2007, while China and the Middle East will account for almost half of global growth (46%).

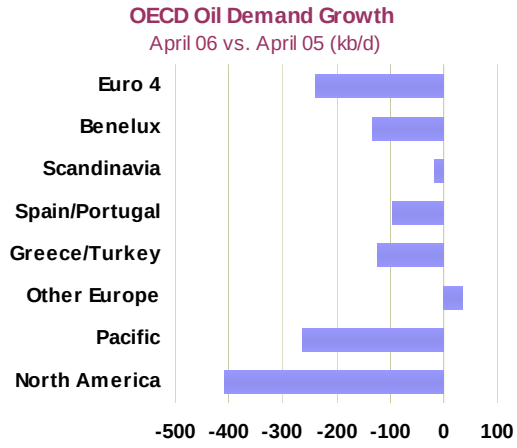


OECD

Overview

Preliminary May 2006 inland delivery data suggest that North American demand was relatively buoyant, driven mostly by the US, where economic performance continues to exceed expectations (and to a lesser extent by Mexico). By contrast, oil product deliveries were relatively flat in major European countries – notably France, Germany and Italy – as a result of very weak gasoline demand and lower heating oil usage in line with relatively mild spring temperatures. In the Pacific, meanwhile, inland deliveries were reported to be quite weak in Japan but very strong in Korea.





Given changes to historical data – which affect the 2005 baseline – second quarter OECD demand has been revised down by 410 kb/d to 48.2 mb/d (-0.6% versus 2Q05). On the whole, 2006 demand is 200 kb/d lower than last month's *OMR*.

In 2007, OECD demand is expected to increase by 0.4 mb/d (0.8%). This projection is based on continued, relatively strong economic growth over the next year. Of course, this economic forecast – coming primarily from the IMF, the OECD and Consensus Economics – may be revised downwards as a result of growing economic imbalances and the lagged impact of high oil prices.

Total OECD Demand by Product
(million barrels per day)

	2005	2006	2Q05	3Q05	4Q05	1Q06	Feb 06	Mar 06	Apr 06	Latest month vs. Mar 06	Latest month vs. Apr 05
LPG & Ethane	4.69	4.66	4.31	4.31	4.73	4.99	5.24	4.80	4.40	-0.41	-0.02
Naphtha	3.21	3.19	3.13	3.24	3.09	3.18	3.26	3.05	2.86	-0.19	-0.41
Motor Gasoline	14.87	14.87	15.07	15.19	14.74	14.34	14.30	14.76	14.72	-0.04	-0.22
Jet & Kerosene	4.22	4.26	3.87	3.96	4.38	4.52	4.52	4.42	4.14	-0.28	0.26
Gas/Diesel Oil	13.06	13.21	12.66	12.75	13.40	13.74	13.86	14.20	12.53	-1.67	-0.28
Residual Fuel Oil	4.45	4.31	4.23	4.30	4.48	4.66	4.73	4.57	3.85	-0.71	-0.50
Other Products	5.05	5.16	5.27	5.38	5.03	4.72	4.62	4.79	4.86	0.07	-0.08
Total Products	**49.53**	**49.66**	**48.54**	**49.13**	**49.86**	**50.15**	**50.53**	**50.60**	**47.37**	**-3.23**	**-1.25**

Among the key fuels driving demand, diesel will continue to post relatively strong growth of 2.3% in 2007, down slightly from 2.9% in 2006. Jet fuel/kerosene demand should rise by 1.7% (compared to 1.0% in 2006), pulled upwards in part by the continued success of low-cost airlines. Meanwhile, gasoline demand will increase by only 0.4% in 2007 as growth is undermined by the dieselisation of the vehicle fleet in some areas, particularly Europe. Finally, demand for residual fuel oil will likely continue its long-term pattern of decline (-0.4% growth in 2007) as OECD countries broadly continue their switch to alternative fuels, including natural gas.

North America

US inland deliveries posted a year-on-year increase in May (4.3%), prompted by buoyant demand for jet fuel/kerosene (deliveries up by 6.0%) and residual fuel oil (8.2%). However, there are reasons to be cautious regarding the strength of US demand. Indeed, over the past few months preliminary US data have regularly been revised downwards. Most recently, April demand was revised down by 275 kb/d versus estimates based on preliminary data, with the largest revisions coming in LPG/ethane and 'other' products. Nonetheless, US gasoline consumption is expected to hold its ground during the driving season, growing by 1.3% year-on-year in 3Q06.

In **Mexico**, May inland deliveries grew by 1.4% versus year ago levels, reflecting strong economic performance in the second quarter of 2006. There is some concern that opposition protests following the closely fought presidential election will impinge upon current strong economic growth if demonstrations escalate.

For North America as a whole, second quarter 2006 demand now stands at 25.4 mb/d (+0.2% versus 2Q05). This is 100 kb/d lower than last month's *OMR*.

OECD North America Demand by Product
(million barrels per day)

	2005	2006	2Q05	3Q05	4Q05	1Q06	Feb 06	Mar 06	Apr 06	Latest month vs. Mar 06	Latest month vs. Apr 05
LPG & Ethane	2.80	2.83	2.55	2.58	2.81	2.98	3.13	2.91	2.69	-0.22	0.13
Naphtha	0.45	0.43	0.48	0.50	0.30	0.36	0.37	0.36	0.34	-0.02	-0.16
Motor Gasoline	10.61	10.70	10.74	10.77	10.58	10.35	10.28	10.63	10.58	-0.05	-0.04
Jet & Kerosene	1.93	1.95	1.89	1.93	1.97	1.87	1.88	1.90	1.94	0.04	0.09
Gas/Diesel Oil	5.08	5.17	5.02	4.93	5.14	5.35	5.35	5.57	4.95	-0.62	-0.10
Residual Fuel Oil	1.57	1.45	1.46	1.61	1.62	1.44	1.35	1.46	1.19	-0.27	-0.31
Other Products	3.01	3.10	3.19	3.18	3.02	2.78	2.67	2.78	2.89	0.11	-0.02
Total Products	**25.46**	**25.62**	**25.34**	**25.50**	**25.43**	**25.13**	**25.03**	**25.60**	**24.57**	**-1.03**	**-0.41**

In 2007, North American oil product demand is projected to rise by 0.4 mb/d (1.5%), driven in part by expectations of continued strong economic growth. Temperatures were also extraordinarily mild in 1Q06, contributing to a 440 kb/d (1.7%) year-on-year decline in North American demand. As a consequence, assuming normal weather patterns, demand growth should rebound (3.2%) in 1Q07.

On a product-by-product basis, US middle distillate demand will remain relatively strong in 2007. Diesel consumption is expected to increase by 2.3% and jet fuel/kerosene demand should rise by 1.7%, in line with strong economic performance. Residual fuel oil will reverse its steep 2006 fall (-9.6%) and grow by 3.6% in 2007. In general, US fuel oil demand is stagnant, but the first half of 2006 saw an unusually large drop in demand, as natural gas prices eased following mild temperatures, thereby discouraging fuel oil consumption.

Europe

Preliminary May 2006 inland delivery data for **Germany** and **Italy** show that oil product demand was relatively flat when compared to the same month of the previous year (0.1% and 0.4% growth, respectively). A pronounced decline in gasoline demand (-6.6% and -6.2%, respectively) was offset by strong gasoil/diesel demand growth (1.9% and 4.3%). **France's** inland deliveries, meanwhile, fell by 1.5%, in part due to much lower consumption of heating oil (-12.3%), driven by relatively mild temperatures.

OECD Europe Demand by Product
(million barrels per day)

	2005	2006	2Q05	3Q05	4Q05	1Q06	Feb 06	Mar 06	Apr 06	Latest month vs. Mar 06	Latest month vs. Apr 05
LPG & Ethane	1.00	0.97	0.90	0.91	1.04	1.08	1.15	1.03	0.89	-0.14	-0.04
Naphtha	1.18	1.16	1.14	1.15	1.21	1.17	1.19	1.16	1.08	-0.08	-0.11
Motor Gasoline	2.65	2.56	2.74	2.75	2.56	2.43	2.44	2.52	2.58	0.06	-0.15
Jet & Kerosene	1.24	1.28	1.22	1.33	1.23	1.24	1.20	1.31	1.25	-0.06	0.07
Gas/Diesel Oil	6.10	6.18	5.80	6.07	6.34	6.47	6.57	6.62	5.74	-0.88	-0.15
Residual Fuel Oil	1.82	1.82	1.78	1.70	1.80	2.06	2.17	2.03	1.67	-0.36	-0.14
Other Products	1.48	1.48	1.55	1.63	1.46	1.28	1.25	1.33	1.44	0.11	-0.06
Total Products	**15.48**	**15.45**	**15.14**	**15.55**	**15.64**	**15.73**	**15.97**	**16.00**	**14.65**	**-1.35**	**-0.58**

Second-quarter 2006 OECD European demand averaged 14.9 mb/d (-1.5% versus 2Q05). This is 180 kb/d lower than last month's *OMR*, mostly because of large revisions to UK data.

Looking to 2007, OECD European demand is expected to decline slightly to 15.4 mb/d (-0.1%). Differences across countries will be driven in large part by disparities in economic growth, interfuel substitution and fuel efficiency. Despite these variations, common themes emerge, notably the continued trend towards further dieselisation of Europe's car fleet and the substitution of natural gas in place of fuel oil. As such, diesel demand is expected to grow significantly (2.7%), while gasoline demand should fall by 3.2%. Similarly, fuel oil consumption will decline by 1.9% in 2007 (provided no major droughts occur in Southern Europe, which could prompt higher fuel oil demand to compensate for limited hydropower generation).

Pacific

Preliminary inland delivery data suggest that **Japanese** demand declined by 2.8% year-on-year in May. This was in part due to weather-related factors: on the one hand, warmer-than-normal temperatures in northern Japan depressed heating oil usage; on the other, poor weather during most of the month spoiled the traditional Golden Week holiday, reducing gasoline consumption to abnormally low seasonal levels as many drivers chose to stay at home.

OECD Pacific Demand by Product
(million barrels per day)

	2005	2006	2Q05	3Q05	4Q05	1Q06	Feb 06	Mar 06	Apr 06	Latest month vs. Mar 06	Latest month vs. Apr 05
LPG & Ethane	0.89	0.86	0.86	0.82	0.88	0.93	0.96	0.87	0.82	-0.05	-0.11
Naphtha	1.58	1.60	1.50	1.58	1.58	1.65	1.71	1.53	1.43	-0.10	-0.14
Motor Gasoline	1.61	1.62	1.59	1.66	1.61	1.56	1.58	1.60	1.56	-0.04	-0.04
Jet & Kerosene	1.04	1.02	0.75	0.70	1.19	1.42	1.45	1.21	0.95	-0.25	0.10
Gas/Diesel Oil	1.87	1.86	1.84	1.75	1.91	1.92	1.93	2.01	1.83	-0.18	-0.03
Residual Fuel Oil	1.05	1.04	0.98	0.98	1.07	1.16	1.21	1.08	1.00	-0.08	-0.05
Other Products	0.55	0.59	0.53	0.57	0.55	0.67	0.69	0.68	0.53	-0.15	0.00
Total Products	**8.59**	**8.59**	**8.06**	**8.07**	**8.79**	**9.29**	**9.53**	**8.99**	**8.14**	**-0.85**	**-0.26**

By contrast, **Korea's** inland deliveries surged by 5.5% in May 2006 compared to the same period in the previous year. This is in sharp contrast to the first four months of the year, where demand declined year-on-year. The May demand rebound can be attributed to two factors: first, a relatively weak May 2005 baseline and, second, strong naphtha demand growth (6.1%), mostly due to less intensive petrochemical plant maintenance than that observed in May 2005.

Second quarter 2006 OECD Pacific demand stands at 7.9 mb/d (-1.9% versus 2Q05), 140 kb/d below last month's *OMR*. With respect to 2007, OECD Pacific oil product demand should rise slightly to 8.6 mb/d (0.1% growth versus 2006). Japanese demand will continue to decline (-0.7%), in part due

to diminishing direct crude burning for power generation. By contrast, Korean demand may rebound (1.3%) from a very weak 2006 baseline, when demand declined by 0.1%.

Non-OECD

China

Preliminary indications suggest that China's 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 – rose by 11% in May. This increase is driven by the country's continued strong economic performance and possibly by refiners' increased willingness to supply the market in anticipation of late May's rise in administered retail prices. The May 2005 baseline was also somewhat weak, so relatively strong growth had been anticipated.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2005	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
LPG & Ethane	638	645	656	6	11	1.0	1.7
Naphtha	774	894	982	120	88	15.5	9.9
Motor Gasoline	1091	1177	1257	86	80	7.9	6.8
Jet & Kerosene	238	260	282	23	21	9.6	8.2
Gas/Diesel Oil	2127	2266	2407	139	141	6.5	6.2
Residual Fuel Oil	787	746	733	-41	-14	-5.2	-1.9
Other Products	966	1039	1101	74	62	7.6	6.0
Total Products	**6621**	**7028**	**7418**	**407**	**390**	**6.1**	**5.5**

Chinese apparent demand growth is projected to remain strong over the second half of 2006 and throughout 2007, with transportation fuels (which account for about 40% of total demand) rising by approximately 6-8%. Naphtha will also post robust demand growth of about 10%. By contrast, LPG and fuel oil consumption will be stagnant to declining year-on-year (1.9% and -1.6%, respectively, over the 18 month period). Both fuels are subject to interfuel substitution with high prices. Fuel oil should see less demand from electricity generation as China continues to add non-oil-fired power generation and transmission capacity.

China Crude & Product Trade
(thousand barrels per day)

	2004	2005	2Q2005	3Q2005	4Q2005	1Q2006	Mar 06	Apr 06	May 06	Latest month vs. Apr 06	Latest month vs. May 05
Net Imports/(Exports) of:											
Crude Oil	2346	2387	2541	2294	2407	2872	2697	2773	2684	-89	278
Products & Feedstocks	661	480	375	445	599	512	553	659	554	-105	402
Gasoil/Diesel	43	-19	-27	-40	-3	-10	-30	-4	-15	-11	10
Gasoline	-125	-130	-161	-155	-55	-107	-104	-63	-72	-9	111
Heavy Fuel Oil	506	418	395	397	402	406	414	447	468	21	207
LPG	201	194	179	216	182	146	149	217	226	9	111
Naphtha	-33	-35	-67	-25	1	-15	-15	-18	-58	-40	-3
Jet & Kerosene	16	11	5	2	30	43	106	20	12	-8	19
Other	52	41	51	49	42	49	33	60	-7	-67	-53
Total	3008	2867	2916	2739	3006	3384	3250	3432	3237	-194	681

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

Overall, China's apparent oil product demand is seen growing by 5.5% to 7.4 mb/d in 2007. There have been reports that the government is contemplating further increases to administered retail prices, with the possibility of a 15-20% increase by the end of the year, depending on the direction of international market prices. This could certainly temper demand growth. At the same time, some market participants have speculated that China may be filling its strategic storage, although there are no official pronouncements in this area.

Other Non-OECD

Based on preliminary data and estimates, **India** will post strong 2Q06 oil product demand growth (5.7%) compared to the same quarter in 2005, boosted by May's 8.7% year-on-year increase. The May spike was driven in large part by a surge in diesel and gasoline demand, which may be explained in part by the fact that retailers, motorists and farmers anticipated an early June hike in administered

prices, filling their tanks in advance. Diesel demand growth will likely be less vigorous during the rest of the year, although it will be supported seasonally by harvest-driven consumption, thus rising by 4.0% in 3Q06 and 3.5% in 4Q06. Crucially, LPG and kerosene prices were not altered. This is due to political and social considerations; in India, kerosene is considered as the 'fuel of the poor'.

With respect to 2007, India's oil product demand will increase by 2.8%, to 2.7 mb/d. It is worth noting that the spike in naphtha demand observed since March is likely to prove temporary, since naphtha is relatively expensive vis-à-vis natural gas, especially in fertilizer production. Therefore, naphtha demand is projected to decline by 3.8% next year (compared to a rise of 1.8% in 2006). For **Other Asia** as a whole, 2007 oil product demand should grow by 2.6% to reach 9.1 mb/d.

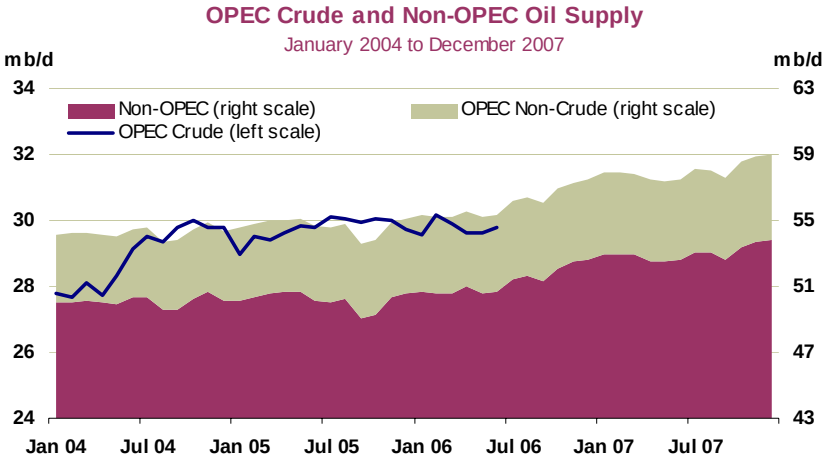
Regarding other regions, **Latin American** demand will rise by 0.1 mb/d (2.1%) in 2007, to 5.3 mb/d. Regional demand will be pushed by Brazilian growth of 2.4%, to 2.3 mb/d. Note that the success of Brazil's ethanol program helps explain why forecasts for gasoline and diesel demand growth are relatively weak (1.8% and 1.9%, respectively). However, it can be argued that some of the weakness is related to gasoline adulteration, which is obviously difficult to measure.

Furthermore, the **FSU's** 2007 apparent demand (the difference between crude production and net exports of crude and products) should remain relatively stagnant at 3.9 mb/d (+0.8%). By contrast, **Middle East** demand will grow by a very robust pace (5.3%) to 6.8 mb/d next year, as the region's economies benefit both from high oil prices – which have filled government coffers and hence allowed higher spending – and a demographic spur – as the region's population is mostly young and increasingly eager (and able) to consume.

SUPPLY

Summary

- **Non-OPEC oil supply growth in 2007** is projected to accelerate to 1.7 mb/d, taking total supply to 53.0 mb/d. This compares to anticipated growth of 1.1 mb/d in 2006 and a non-OPEC total of 51.3 mb/d. Growth is concentrated in the second half of 2006 and first half of 2007. This reflects not only a spike in expected new field start-ups, but also an assumed rebound from depressed supply levels evident in the corresponding periods of 2005 and 2006. The FSU and Africa generate a combined 60% of total 2007 non-OPEC growth, with the Americas providing a further 30%. The North Sea and OECD Pacific also see temporary respite in 2007 after recent sharp declines.
- **OPEC gas liquids and non-conventional supply** continues to show robust growth in 2007. Baseline supplies for 2005/2006 have been revised up by some 270 kb/d, with this year's total now seen at 4.7 mb/d. Growth in 2007 amounts to 280 kb/d, similar to the expected 2006 increment. Qatar provides 90 kb/d of next year's increase, with 20-40 kb/d of growth also coming from each of Algeria, Iran, Saudi Arabia and the UAE.
- **World oil supply** in June gained 315 kb/d from May to average 85.2 mb/d. This was 715 kb/d higher than June 2005, with OECD production down by 620 kb/d, OPEC total oil supply up 225 kb/d, and non-OECD plus other supplies running 1.1 mb/d higher versus year-ago levels. Month-on-month gains in June came from the US GOM, Canada, Russia, Azerbaijan, China and Sudan, while North Sea maintenance trimmed European supply by 175 kb/d. OPEC crude supply was 200 kb/d higher than in May, largely due to renewed exports from northern Iraq.
- **Non-OPEC supply** (now including global biofuels) projections for 2006 have been revised up by 90 kb/d to 51.3 mb/d. This results from the inclusion of 155 kb/d of biofuels supply not previously included in *OMR* balances. Otherwise, conventional oil supply estimates for 2006 are trimmed by 65 kb/d. Weaker assessments for Angolan and Canadian output and for Malaysian NGL supply outstrip upward revisions for the US, Mexico and the UK.
- **OPEC crude supply** for June is estimated up by 200 kb/d from May, at 29.8 mb/d. Rising supply from Iraq accounted for 160 kb/d of the increase, while Nigeria, Iran and Saudi Arabia also saw supply nudge higher from recently suppressed levels. Maintenance work and field outages saw production from Algeria, Indonesia, UAE and Venezuela fall by a collective 155 kb/d. Downward revisions to May supply amount to 230 kb/d, centred on Iran, Nigeria, Saudi Arabia and Algeria.
- **June OPEC spare capacity** came to 3.0 mb/d, although effective spare capacity, excluding Indonesia, Iraq, Nigeria and Venezuela, is closer to 2.0 mb/d. Over 500 kb/d of Nigerian capacity remains shut-in due to security concerns and pipeline outages in the Niger Delta. Furthermore, global refinery upgrading constraints suggest that real OPEC spare capacity at times may be lower still. Nonetheless, OPEC capacity could increase to 33.1 mb/d by end-2006 from 32.8 mb/d now.
- **The 'call on OPEC crude and stock change'** for 2006 is revised down by 0.5 mb/d to 28.8 mb/d after incorporating global biofuel supply estimates and weaker OECD demand. However, the call is seen rising progressively through the rest of this year to 29.1 mb/d by 4Q. Strong non-OPEC supply and OPEC gas liquids growth in 2007 exceed expected 1.6 mb/d demand growth, leading to slippage in the call to 28.4 mb/d. However, a higher call is possible if adjustments are made for downside non-OPEC supply risk and the miscellaneous-to-balance factor.



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.

This month's Supply section is abridged to concentrate on the broad non-OPEC outlook for 2007 and the trends in June OPEC crude supply. More detailed national and regional supply commentary can be found in the companion document, Medium-Term Oil Market Report (MTOMR).

The 2007 Outlook for Non-OPEC Supply

After a near-static performance in 2005, non-OPEC oil supply is expected to grow by 1.1 mb/d in 2006 to average 51.3 mb/d, with growth accelerating to 1.7 mb/d in 2007, for an annual average of 53.0 mb/d. OPEC non-crude liquids, primarily derived from natural gas, also show robust growth which comes in at 255 kb/d for 2006 and 280 kb/d for 2007. Although still a marginal component of the world market at 5.0 mb/d by 2007, OPEC NGLs are nonetheless on course to have grown by 60%, or 1.85 mb/d, in the 2000-2007 period.

World Oil Supply 2004-2007
(million barrels per day)

	2004	2005	2006	2007	04 vs 03	05 vs 04	06 vs 05	07 vs 06
North America	14.58	14.09	14.30	14.56	-0.04	-0.49	0.21	0.26
Europe	6.08	5.61	5.38	5.36	-0.25	-0.47	-0.22	-0.02
Pacific	0.58	0.58	0.54	0.62	-0.08	0.00	-0.05	0.09
Total OECD	**21.23**	**20.28**	**20.22**	**20.54**	**-0.36**	**-0.96**	**-0.06**	**0.32**
Former USSR	11.23	11.64	12.09	12.61	0.89	0.41	0.45	0.52
East Europe	0.17	0.16	0.15	0.13	-0.01	-0.01	-0.01	-0.01
China	3.48	3.62	3.70	3.73	0.07	0.13	0.09	0.03
Other Asia	2.70	2.67	2.72	2.75	0.14	-0.03	0.06	0.02
Latin America	4.08	4.30	4.47	4.72	0.04	0.22	0.17	0.25
Middle East	1.93	1.86	1.80	1.75	-0.12	-0.07	-0.06	-0.05
Africa	3.37	3.67	4.10	4.60	0.34	0.30	0.43	0.49
Total Non-OECD	**26.96**	**27.92**	**29.04**	**30.29**	**1.36**	**0.96**	**1.13**	**1.25**
Processing Gains	1.83	1.86	1.90	1.92	0.03	0.03	0.04	0.02
Other Biofuels	0.07	0.12	0.15	0.26	0.01	0.04	0.04	0.11
Total Non-OPEC	**50.10**	**50.17**	**51.31**	**53.01**	**1.04**	**0.08**	**1.14**	**1.70**
OPEC Crude	28.91	29.76	na	na	1.80	0.85	na	na
OPEC NGL & Non-Conv.	4.15	4.46	4.72	5.00	0.49	0.31	0.25	0.28
Total OPEC	**33.06**	**34.23**	**na**	**na**	**2.29**	**1.16**	**na**	**na**
Total Supply	**83.16**	**84.40**	**na**	**na**	**3.33**	**1.24**	**na**	**na**

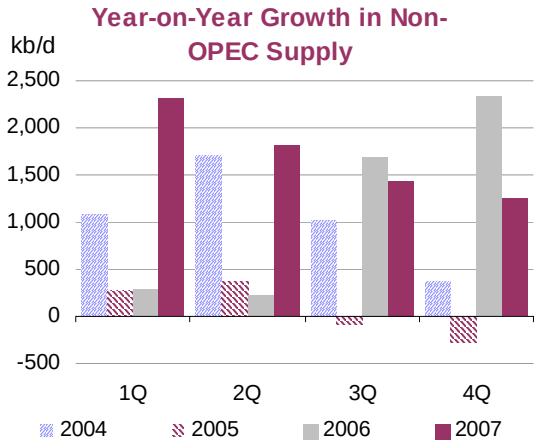
na = not available

In general we see the 2006 and 2007 profile as a reversion to more normal non-OPEC supply trends after the exceptionally weak performance evident since the second half of 2004. The slow-down in non-OPEC supply in the two years since mid-2004 has resulted from a number of factors which are not necessarily symptomatic of a longer-term trend. Taking 2005 as a guide, the relative underperformance of non-OPEC supply compared to early expectations (off by 1.1 mb/d in the case of *OMR* projections) can be ascribed to the following reasons:

- Heavier than normal hurricane outages affecting North American supply accounted for 0.5 mb/d;
- New field start-up delays in North America, the North Sea, Brazil, Sudan and others accounted for a further 0.3 mb/d;
- A temporary cessation of oilfield investment affecting the assets of Russian producers Yukos and Sibneft cut 0.2 mb/d off Russian supply compared to initial expectations;
- A balance of 0.1 mb/d was attributable to unexpected outages, political events, extended maintenance and faster than expected decline rates.

OMR projections are made under a 'business-as-usual' set of assumptions. Therefore, typical seasonal average weather and maintenance-related disruptions are accounted for but exceptional disruptions are not. As noted in the caveat at the start of this section every month, no account is taken of factors which, by definition, are not possible to forecast. Experience has shown that these factors can reduce non-OPEC supply in a given year by 300-400 kb/d.

Clearly, some of the factors which weighed so heavily on 2005 non-OPEC supply could recur. However, their 2005 coincidence and extent seem statistically unlikely to recur in 2006 and 2007. Therefore, production recovery from facilities adversely affected during late 2004 and through to 2005 represents a large part of the strong growth expected for 2006 and 2007. There is a parallel here with oil demand. Weak global oil demand growth in 2003 contributed to surging growth rates in 2004. This was followed by 'weaker-than-expected' demand growth in 2005, although some forecasters (this Report included) correctly predicted a downside adjustment in 2005 after the artificially inflated growth of 2004. In much the same way, the strong non-OPEC growth expected for the second quarter of 2006 and early 2007 is itself partially a 'rebound' effect from earlier suppressed supply.



There has also been a tendency in some quarters to attribute the expected rebound in 2006 and 2007 non-OPEC supply to recent high prices. However, given that major upstream investment projects typically have lead times of between five and seven years, projects coming on stream in 2006 are likely to have been sanctioned sometime between 1999 and 2001, or even earlier in the case of projects that have experienced long delays. Projections contained in the *MTOMR* covering a longer time horizon through to 2011 do incorporate some of the supply upside prompted by price increases in the last two to three years. On a limited basis, some new investment projects have been accelerated as a result of higher prices and some marginal satellite developments are taking place. Certainly an upsurge in drilling and capital spending in 2005 and 2006 is likely to support volume growth in the medium term if tightness in raw materials, service capacity and labour can be overcome.

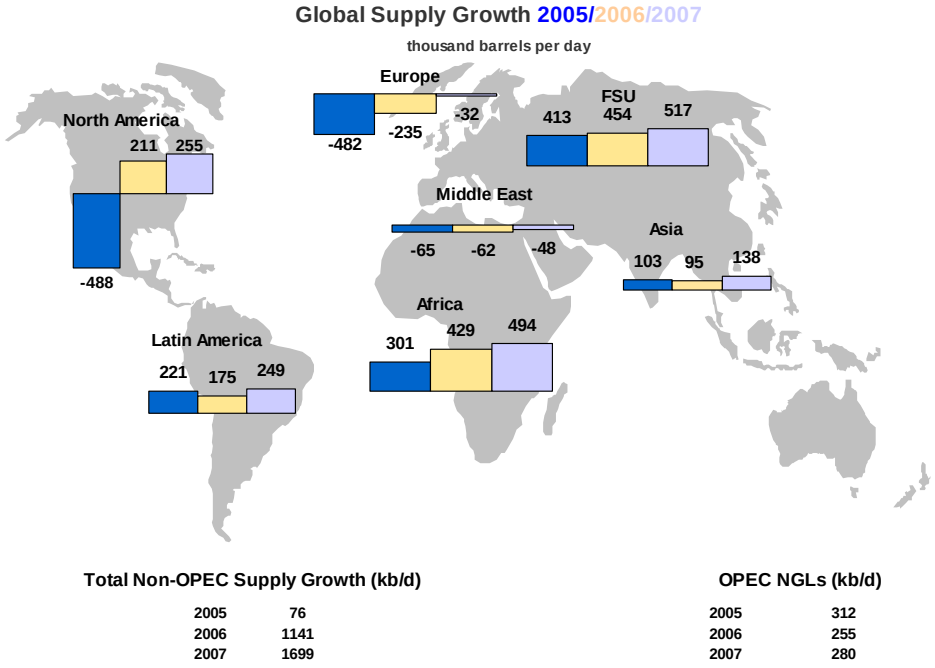
That said, there does appear to be a pronounced peak in new field start-ups within non-OPEC countries affecting 2006-2008. Collectively, the expected peak volumes of oil resulting from new projects coming on stream in 2006, 2007 and 2008 amounts to 3.2 mb/d, 3.4 mb/d and 2.6 mb/d respectively, although clearly peak production can occur several months or in some cases years after initial field start-up. As discussed in detail in the *MTOMR*, tightness in drilling and service capacity could well delay some of this new capacity, although for now we would not see this potential downside lying outside the traditional 300-400 kb/d caveat.

Regionally, 2007 non-OPEC supply growth is centred on many of the same areas that are generating increases this year. **FSU** production is seen increasing by some 515 kb/d, after 455 kb/d of growth in 2006. This is equivalent to 30% of the total non-OPEC increment. Russian growth remains close to 2.8%, and, at 270 kb/d year-on-year, matches expected increases in export capacity for 2007. Rising Caspian Sea volumes from BP and the AIOC consortium generate 200 kb/d of supply growth from Azerbaijan, with total production reaching 835 kb/d, a 31% increase compared to 2006. After a sluggish year in 2006, growth in supply from Kazakhstan accelerates to 4% in 2007, centred on the Tengiz project.

Africa is responsible for a further 29% of non-OPEC growth in 2007, with regional supply averaging 4.6 mb/d, up by some 12% from 2006. Deepwater Angola generates an extra 315 kb/d of supply in 2007 to reach output of 1.75 mb/d. Meanwhile, a build up in supplies from fields brought on stream by Asian NOCs during 2006 in Sudan generates a further 130 kb/d of supply growth. Total Sudanese supply is seen averaging 620 kb/d in 2007. Offshore, Equatorial Guinea and Mauritania collectively add 60 kb/d next year, taking production to new highs of 395 kb/d and 75 kb/d respectively.

Both North America and Latin America see supply increase by around 250 kb/d in 2007, a collective 30% contribution to the rise in non-OPEC output. All of the increase in **Latin America** comes from Brazil, where nine new deepwater developments with start-up between mid-2006 and end-2007 have a significant impact on 2007 supply. Total Brazilian oil supply, including alcohol fuels, breaks

through 2 mb/d in 2007. From **North America**, another 250 kb/d of incremental supply comes from the US Gulf of Mexico (GOM). Like Brazil's Campos Basin, the GOM is a key source of new deepwater oil supply for both the short- and medium-term outlook period. Capital intensive deepwater projects are always subject to time and cost overruns. However, even a relatively conservative view on start-up and build-up from the Gulf's two key 2007 increments – the Thunder Horse and Atlantis fields – generates significant incremental oil. A 140 kb/d rise in 2007 Canadian oil supply to 3.4 mb/d is dependent upon a more trouble-free year for both Albertan syncrude production and offshore Newfoundland supply. A spate of unscheduled outages has affected both during 2005 and the first half of 2006.



While less visible in terms of incremental supply, an important component of the non-OPEC 2007 rebound comes from the **North Sea.** Relentless decline in recent years from this maturing province could be stemmed temporarily due to a limited number of significant new field developments for which start-up is 'bunched' into late 2006 and early 2007. The UK's Buzzard field in the Forties system will eventually reach 180 kb/d, while around 150 kb/d of new production comes from the Volve, Alvheim and Klegg developments within Norway's Sleipner/Frigg production system. However, the levelling off in 2007 of North Sea supply could prove temporary with decline setting in again for the medium term.

Revisions to 2006 Non-OPEC Estimates

The biggest single change compared to last month's Report is the inclusion of biofuel supply estimates for countries other than Brazil, the USA and Germany (for which a combined 500 kb/d-plus is already included in the *OMR*). Analysis undertaken for the *MTOMR* highlights global supply of ethanol and biodiesel, net of US/Brazil, rising from 22 kb/d in 2000 to 74 kb/d in 2004, 118 kb/d in 2005 and 154 kb/d in 2006. This includes estimated ethanol volumes by 2006 of 10 kb/d or more each in China, the EU, Thailand, India and Colombia. Global biodiesel supply rises from 15 kb/d in 2000 to 40 kb/d in 2004, 72 kb/d in 2005 and 84 kb/d in 2006. Production is centred in Germany (40 kb/d) and in France and the USA (with around 10 kb/d each).

Regarding conventional oil, OECD North American 2006 supply is revised up by some 15 kb/d. A 50 kb/d upward revision going forward for the **US**, centred on the Gulf of Mexico, and a 10 kb/d adjustment based on May actual data for **Mexico** offset a 45 kb/d downward revision deriving from **Canadian** syncrude supply. Higher US baseline supply data, allied to a smoothing of decline rate trends undertaken as part of the medium-term forecasting exercise underpin the US revision. Outages affecting Shell and Syncrude Canada's units underpin the syncrude revisions. A 20 kb/d upward adjustment for Europe is mainly due to higher UK baseline estimates.

Aggregate FSU estimates are largely unchanged from last month. However, **Russian** supply is revised down by 10 kb/d for 2006 on the basis of a slower assumed build-up from the Sakhalin 1 project. In contrast production from **Azerbaijan** is revised up by 15 kb/d to reflect stronger performance from the offshore ACG fields and the inclusion from October of condensate production from Shah Deniz (previously included from February 2007).

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	14.09	14.29	0.19	14.09	14.30	0.21	0.00	0.02	0.02
Europe	5.64	5.41	-0.24	5.61	5.38	-0.22	-0.04	-0.02	0.01
Pacific	0.58	0.53	-0.05	0.58	0.54	-0.05	0.00	0.01	0.01
Total OECD	**20.32**	**20.22**	**-0.10**	**20.28**	**20.22**	**-0.06**	**-0.04**	**0.00**	**0.04**
Former USSR	11.64	12.09	0.45	11.64	12.09	0.45	0.00	0.00	0.00
Europe	0.16	0.15	-0.01	0.16	0.15	-0.01	0.00	0.00	0.00
China	3.62	3.70	0.09	3.62	3.70	0.09	0.00	0.00	0.00
Other Asia	2.73	2.78	0.05	2.67	2.72	0.06	-0.06	-0.06	0.00
Latin America	4.29	4.46	0.17	4.30	4.47	0.17	0.01	0.01	0.00
Middle East	1.86	1.80	-0.06	1.86	1.80	-0.06	0.00	0.00	0.00
Africa	3.67	4.13	0.45	3.67	4.10	0.43	0.00	-0.02	-0.02
Total Non-OECD	**27.96**	**29.11**	**1.14**	**27.92**	**29.04**	**1.13**	**-0.05**	**-0.06**	**-0.02**
Processing Gains	1.86	1.90	0.04	1.86	1.90	0.04	0.00	0.00	0.00
Other Biofuels	0.00	0.00	0.00	0.12	0.15	0.04	0.12	0.15	0.04
Total Non-OPEC	**50.14**	**51.23**	**1.08**	**50.17**	**51.31**	**1.14**	**0.03**	**0.09**	**0.06**

OMR = Oil Market Report

For **Angola**, 2006 output is revised down 25 kb/d following lower indicated supplies for May and June due to extended maintenance, and with a deferral of start-up at the Dalia field to December from an earlier assumption of September.

OPEC Crude Supply in June

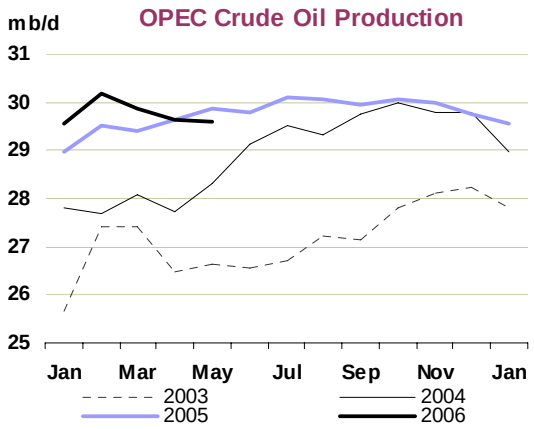
OPEC crude supply for June is estimated to have risen by 200 kb/d from May, at 29.8 mb/d. The resumption of northern exports from Iraq via Ceyhan underpinned the rise and accounted for 160 kb/d of the total OPEC increase. A partial rebound in supply from Nigeria, Iran and Saudi Arabia in June followed recent supply disruptions or voluntary output cuts. Maintenance work and unscheduled field outages saw production from Algeria, Indonesia, UAE and Venezuela fall by a combined 150 kb/d. Evidence of lower exports and/or lower domestic refinery operations in Iran, Nigeria, Saudi Arabia and Algeria lead to a 230 kb/d downward revision to May OPEC supply, now assessed at 29.6 mb/d.

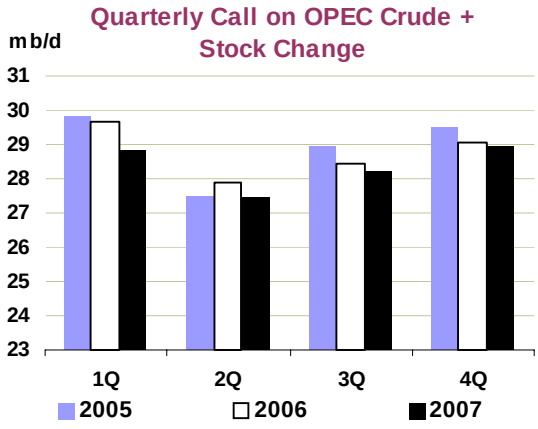
OPEC Crude Production
(million barrels per day)

	1 July 2005 Target	June 2006 Production	Sustainable Production Capacity[1]	Spare Capacity vs June 2006 Production	Production vs. Target	Capacity end-2006	Capacity end-2007
Algeria	0.89	1.33	1.37	0.04	0.44	1.40	1.38
Indonesia	1.45	0.90	0.99	0.09	-0.55	1.00	0.98
Iran	4.11	3.75	4.00	0.25	-0.36	3.97	4.24
Kuwait[2]	2.25	2.51	2.60	0.09	0.26	2.60	2.68
Libya	1.50	1.70	1.72	0.02	0.20	1.77	1.80
Nigeria	2.31	2.29	2.60	0.31	-0.02	2.88	2.90
Qatar	0.73	0.83	0.85	0.03	0.10	0.89	1.01
Saudi Arabia[2]	9.10	9.35	10.80	1.45	0.25	10.80	10.91
UAE	2.44	2.56	2.70	0.14	0.12	2.72	2.90
Venezuela[3]	3.22	2.51	2.70	0.19	-0.71	2.61	2.62
Subtotal	**28.00**	**27.73**	**30.33**	**2.61**	**-0.27**	**30.63**	**31.42**
Iraq		2.07	2.50	0.44		2.50	2.50
Total		**29.79**	**32.83**	**3.04**		**33.13**	**33.92**
(excluding Iraq, Nigeria, Venezuela., Indonesia				*2.02)*			

1 Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Includes Orinoco extra-heavy oil assumed at 530 kb/d in June

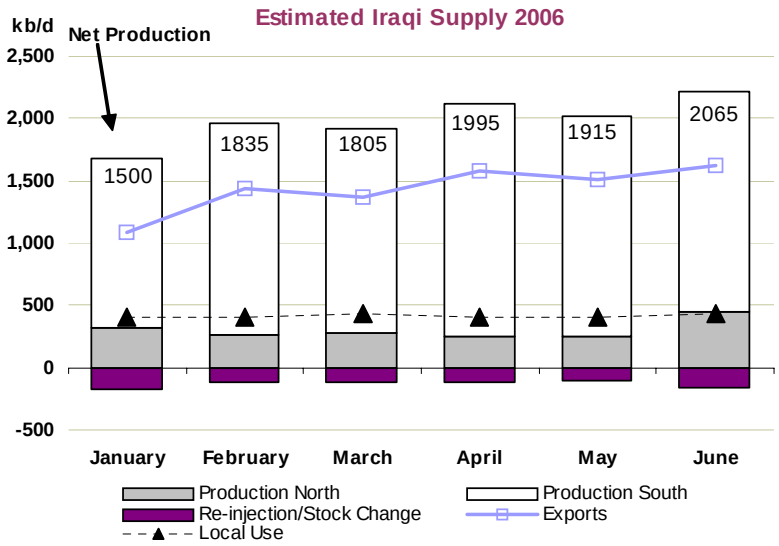
Sustainable production capacity for OPEC remains at last month's level of 32.8 mb/d. However, modest upward revisions for Indonesia, Libya and Qatar offset a reduction of 50 kb/d for Venezuela. Adjustments reflect a reassessment of baseload capacity levels rather than specific increments occurring in the last month. Nominal spare capacity stands at 3.0 mb/d, and effective spare capacity, excluding Indonesia, Iraq, Nigeria and Venezuela, is nearer 2.0 mb/d. Over 0.5 mb/d of production remains shut-in after ethnic unrest in the Niger Delta, while Iraq, Indonesia and Venezuela all face potential problems in boosting short-term production and exports. In addition, some 1.8 mb/d of spare capacity held by Saudi Arabia, Iran and Kuwait comprises largely heavy/sour crude which would struggle to find broad-based demand were it to be offered to the market.





That said, increments to OPEC capacity over the next 18 months look to be relatively light and sweet, at least compared to prevailing OPEC quality levels. Increases from Libya, Nigeria, Saudi Arabia and the UAE comprise some 60% of the total expected 1.0 mb/d capacity increment. The streams concerned (Murban and Arab Light respectively in the case of UAE and Saudi Arabia) are light and/or sweet both within an overall OPEC context and within each producer's own production mix. Further analysis of crude quality trends for both OPEC and non-OPEC producers will be included as a supplement to a forthcoming *OMR*.

Iraqi supply (net of field reinjection and deliveries into storage) in June increased by 160 kb/d to 2.08 mb/d. This was the first time since September 2005 that net production had broken through the 2 mb/d barrier and was also the highest level for both production and exports (1.64 mb/d) since October 2004. Improved security on the northern pipeline to Ceyhan was credited with the increase, as this facilitated the lifting of some 3.1 mb (105 kb/d) from Ceyhan by tanker during June. A further 1 mb sold to Turkish refiner Tupras for pipeline delivery was believed deferred into July. Including this pipeline crude, by early July a total of 5.5 mb of Kirkuk crude was due for lifting, suggesting July northern exports of at least 175 kb/d. Northbound pipeline flows in early July were reported at around 300 kb/d and state marketer SOMO is in discussions with potential buyers about renewed term sales of Kirkuk beginning in August.



Southern exports from Basrah averaged just over 1.5 mb/d in June (with similar volumes scheduled for July). Cross-border exports into Syria account for another 10 kb/d. The smaller terminal of Khor al-Amaya in the south remains out of operation after a fire in late May, although it had been shipping only some 100 kb/d prior to the incident. Crude refined within Iraq, plus direct burn for power generation came to 440 kb/d in June.

It is too early to say whether Iraqi supply has taken an irreversible upward step. The apparently sustainable flow of crude to Ceyhan is a hopeful sign, although the rate of recent shipments has reportedly derived in part from low refinery throughputs at Baiji. The Oil Minister Husain al-Shahristani recently cited current production as 2.5 mb/d, with targets of 2.7 mb/d by end-2006, 4 mb/d by 2010 and 6 mb/d by 2012. While these targets are undoubtedly attainable based purely on Iraq's huge resource base, ongoing security concerns, undermaintained infrastructure and the absence of a sound investment framework suggest actual supply could lag these levels. It is worth noting that in late 2004, the then government envisaged production averaging 3.5 mb/d in 2006.

Nigerian supply is estimated to have risen by 95 kb/d in June, albeit from a downwardly revised May base of 2.2 mb/d. Latest reports suggest that domestic refinery crude runs may be only around 110 kb/d after attacks by militants in March effectively disabled the Warri and Kaduna refineries. Notional refining capacity stands at 445 kb/d but long-standing operational problems mean that utilisation rates have generally struggled to exceed 50% in recent years. June exports are estimated at just under 2.2 mb/d, a rise of 100 kb/d from May. On the production side, increased supply in June came from newer offshore fields as Shell production from the Bonny and Forcados systems remains at less than half of installed 890 kb/d capacity. Existing outages were augmented in June by militants' attacks on a gas-processing facility in the Cawthorne Channel and by a pipeline leak in Nembe Creek which curbed 50 kb/d of Bonny flows. The latter portion of production was reported to be back on stream in late June.

Saudi supply in June is estimated at 9.35 mb/d, up by 50 kb/d from a downward-adjusted May level. April appears to have been a low point for Saudi supply, estimated by this Report at around 9.2 mb/d. Provisional tanker data for both Saudi Arabia itself and the broader AG region suggest a modest uptick in May and June liftings. However, ongoing refinery outages may well have curbed domestic crude runs in both months, thus keeping Saudi crude supply well below early-year peaks. Early indications are that refinery maintenance will ease in July (both domestically and on a global basis) and that Saudi spot tanker bookings are moving sharply higher. While not conclusive, these pointers suggest that supply could move markedly higher in July. It appears that the bulk of any increase could be headed to Atlantic Basin markets, with refinery maintenance still ongoing in Asia. Moreover, there are reports that Chinese buyers may extend recent 10% cuts in their 500 kb/d term purchases into July and August after refiners encountered problems in dealing with relatively heavy/sour crude.

Moves by the Kingdom to expand capacity continue apace. Active drilling rig numbers have reached 100, with a target of 121 by end-year. Development of up to 500 kb/d of production at the Khursaniyah field is now reported to be scheduled for completion by June 2007. The capacity numbers for 2007 included in the table above are based on a more conservative, earlier estimate of late-2007 completion. This raises the prospect that end-2007 Arab Light supplies could be some 200-300 kb/d higher than shown here.

Original estimates for May **Iranian** crude supply, as in previous months, have been undermined by lower consolidated export data. Exports of 2.2 mb/d are 120 kb/d below original estimates, resulting in a revised supply-based proxy for production of 3.7 mb/d. The diversion of heavy/sour crude into floating offshore storage underpins some of the confusion surrounding Iranian supply. Wellhead production may in fact be running closer to capacity 4.0 mb/d levels. Latest indications point to up to 10 vessels holding some 20 million barrels of crude, much of this being heavy, sour Soroush/Nowruz production which has been difficult to market. There were indications of some of this crude being lifted in June and also talk of forthcoming sales to the domestic Bandar Abbas refinery, with Soroush/Nowruz to be blended with condensate. More general indications for June Iranian exports are mixed but, on balance, suggest a modest rise in overall supply, albeit held in check by refinery maintenance. June supply therefore nudges higher to 3.75 mb/d.

Venezuelan supply in June was pulled down by maintenance at the Hamaca syncrude unit which normally processes 190 kb/d of heavy 9° API Orinoco crude into 180 kb/d of 26°API synthetic crude. However, some 90 kb/d of un-upgraded crude was reported to have been sold in blended form. As a result, total Venezuelan crude supply is assessed off by 90 kb/d at 2.51 mb/d in June, although output

is expected to recover in July. Joint venture projects for incremental conventional crude production continue to suffer from delays. Expansion of Exxon Mobil's La Ceiba project and first oil from ConocoPhillip's Corocoro field are in this Report assumed to be pushed back into 2007.

Separate from OPEC crude supply estimates, upward revisions have been made to assessed levels of OPEC gas liquids supply. These adjustments begin to make a material impact on the global supply/demand balance from 2002 onwards, when they begin to amount to 0.1 mb/d or more. This follows detailed analysis of supply trends undertaken for the *MTOMR* and revisions compared to last month's *OMR* can be summarised as follows:

OPEC Gas Liquids Supply:
Revisions to last month's Oil Market Report
(thousand barrels per day)

	2002	2003	2004	2005	2006
Qatar	65	85	110	125	135
United Arab Emirates	35	60	95	120	105
Algeria	10	25	25	25	20
Libya/Nigeria	-5	-5	0	5	5
Total	**105**	**165**	**230**	**275**	**265**

Estimates for absolute levels of OPEC gas liquids capacity by country through to 2011 are contained in the *MTOMR*, while historical data and the forecast through to 2007 can be found in the *Monthly Oil Data Service (MODS)*.

OECD STOCKS

Summary

- **OECD total industry oil stocks** built by 42 mb in May to 2,673 mb, or 7 mb above last year. The build was centred in product inventories in North America, where increased refinery output added to supplies. In the Pacific, crude stocks rose as refinery maintenance reduced throughputs and middle distillates increased due to seasonally lower demand. European stocks were relatively unchanged in comparison. Days of forward demand cover came to 54 days for the OECD as a whole, on par with last month and a year ago.

Preliminary Industry Stock Change in May 2006 and First Quarter 2006

(million barrels per day)

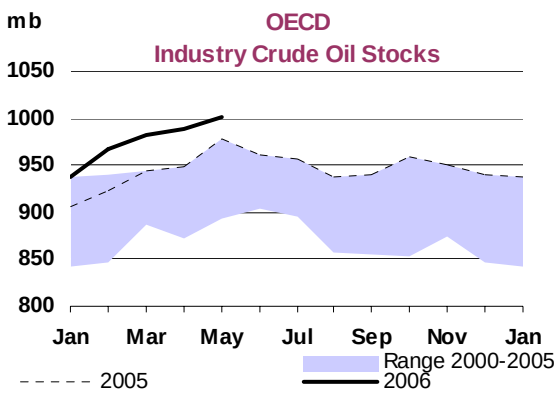
	May (preliminary)				*First Quarter 2006*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.11**	**0.19**	**0.38**	**0.46**	**0.10**	**0.23**	**0.15**	**0.47**
Gasoline	0.19	-0.03	0.01	0.17	0.08	-0.01	0.03	0.10
Distillates	0.19	-0.04	0.29	0.44	-0.21	-0.09	0.00	-0.30
Residual Fuel Oil	-0.03	-0.04	0.09	0.02	0.07	-0.04	-0.01	0.01
Other Products	0.39	0.01	-0.04	0.36	-0.18	-0.01	0.01	-0.19
Total Products	**0.75**	**-0.10**	**0.34**	**0.99**	**-0.24**	**-0.16**	**0.02**	**-0.37**
Other Oils[1]	-0.06	-0.03	0.00	-0.09	-0.02	0.05	0.01	0.04
Total Oil	**0.57**	**0.06**	**0.73**	**1.36**	**-0.16**	**0.12**	**0.18**	**0.14**

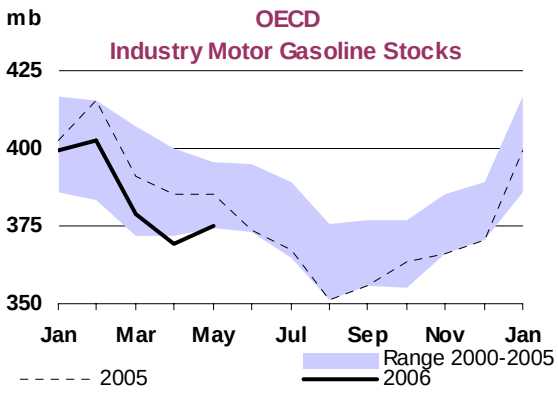
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude stocks** increased by 14 mb in May to 1,002 mb. The build was centred in Japan, and to a lesser extent in Europe, where refinery maintenance reduced crude demand. North American crude oil inventories fell by 3.5 mb, largely due to a fall in Mexican stocks. Downward revisions to the April baseline left total OECD crude stocks 25 mb above year-ago levels, with the persistent contango in crude oil encouraging crude storage.

- **OECD industry gasoline stocks** increased by 5 mb in May to 375 mb. The build came in the US following record imports, averaging more than 1.5 mb/d and a rebound in refinery runs. The increase was largely centred in conventional, finished gasoline inventories on the US East Coast. While RBOB for blending with alcohol stocks also saw large increases, these were mostly offset by a decrease in other blending components. In June, US-50 gasoline stocks trended sideways. Although US gasoline stocks have recovered to their five-year average on a volumetric basis, in terms of forward demand cover, they are still at the bottom of their five-year range.

- **OECD industry middle distillate stocks** built by close to 14 mb in May, with increases in the Pacific and North America. Middle distillates rose in both Japan and Korea as seasonally lower demand offset lower refinery output due to maintenance. In the US an increase in ultra-low-sulphur diesel (ULSD) stocks offset a decline of the same magnitude in regular diesel, while heating oil built on seasonally lower demand. European inventories were relatively unchanged in comparison, but continue to trend above their historical range.



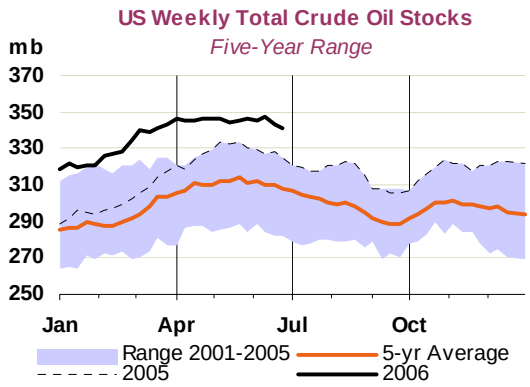


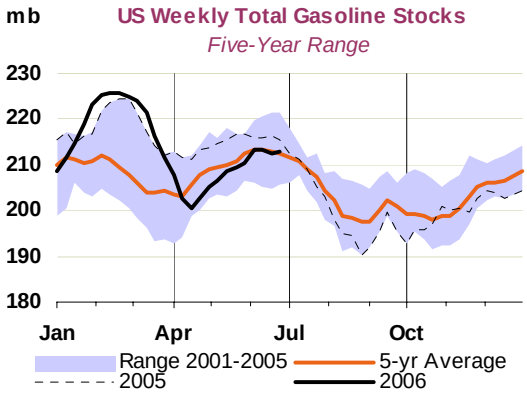
OECD Industry Stock Changes in May 2006

OECD North America

North American crude oil stocks fell by 3.5 mb in May due to a stockdraw in Mexico. US crude stocks however trended sideways in May, despite sharply higher refinery intake. US-50 throughputs were close to 500 kb/d higher than in April, but an even larger monthly rise in crude imports offset the increase in demand. Regionally, a stockdraw of 3.6 mb on the Gulf Coast was offset by increases elsewhere.

In June, US-50 crude stocks fell by 5 mb as refiners completed maintenance work. The stockdraw occurred largely on the Gulf Coast, and to a lesser extent the East Coast, but was partly offset by modest builds elsewhere. The decline was mitigated by high imports, supported by a widening of the Brent/WTI differential. After having traded at a discount to Brent in April and first half of May, WTI regained its premium in the second half of May and in June, reopening for spot arbitrage shipments. Four-week average imports came close to 10.7 mb/d, 150 kb/d higher than the same period last year and about 250 kb/d higher than a month earlier. Refinery runs increased throughout most of June (despite dipping in the last week of the month due to logistical glitches on the Gulf Coast). Four-week average crude runs came to 16 mb/d, more than 500 kb/d higher than in May, but still almost 300 kb/d below the same period last year.





North American product stocks increased by 23 mb in May, the build stemming entirely from the US. Gasoline and middle distillates added about 6 mb each while the volatile 'other products' category increased by more than 12 mb. The increase resulted from higher throughputs as refiners completed maintenance or returned from unscheduled outages, as well as record high gasoline imports and seasonally lower distillate demand. At 661 mb, total North American product inventories are 6 mb below last year.

In June, US-50 product stocks rose further, in line with increased refinery runs. The largest increase in inventories was seen for other products and in particular propane/propylene which built by 7.5 mb. Total distillate stocks also saw large gains, increasing by almost 7 mb, as builds in ULSD continued to offset draws in regular diesel. ULSD built by nearly 12 mb in June to 22 mb as refiners, terminal operators and retailers prepared to switch over to lower-sulphur regulations. Heating oil stocks built by 6 mb, in line with seasonal trends.

US gasoline inventories built by close to 3 mb in June, with increases both in finished gasoline and blending components. Although imports were down sharply from the record levels seen in May, at 1.2 mb/d, they were still more than 120 kb/d higher than in the same period last year. Over the last four-week period, gasoline demand has averaged 9.5 mb/d, 1.4% higher than the same period last year. Although US gasoline stocks have recovered to their five-year average on a volumetric basis, in terms of forward demand cover they are still at the bottom of their five-year range.

OECD Europe

European crude stocks built by 6 mb in May to 346 mb or 10 mb below last year. Lower refinery runs and ample regional supplies led to increases in Norway, the Netherlands and the UK. Throughputs were lower, in particular in Italy and the Netherlands, as unscheduled outages reduced runs and lowered crude demand. At the same time, regional supplies seemed ample as North Sea production rebounded from a maintenance-reduced level in April. A widening WTI/Brent spread in June, in

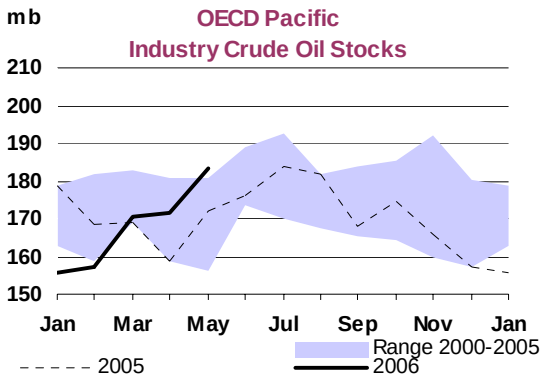
large part due to increased crude demand in the US, will likely support increased spot arbitrage shipments out of Europe in June and July.

European product stocks fell by 3 mb in May, with all main product categories declining by about 1 mb each. The bulk of the decline came in the Netherlands where refinery throughputs continued to lag year-ago levels as problems at the Pernis refinery in Rotterdam persisted. German heating oil stocks increased to 47% of capacity by the end of May, from 44% the previous month. Given high absolute prices, it seems unlikely that consumers intentionally increased stocks at this time of the year, suggesting discrepancies between inland deliveries and demand. IPE gasoil futures remained in firm contango, however, providing favourable economics for storing product.

OECD Pacific

In the Pacific, crude stocks built by 12 mb in May to 183 mb. The additions were centred in Japan, where refinery maintenance reached its seasonal peak, outpacing lower imports. Refiners are rebuilding depleted stocks ahead of the seasonal ramp-up in throughputs which normally runs through July and August. Further supporting the build, crude purchases by utilities were lower in May, due mostly to reduced electricity demand in the shoulder period between winter and summer.

Weekly data from the Petroleum Association of Japan show that onshore crude stocks fell by 5 mb in June in line with increased throughputs. By the first of July, utilization rates had rebounded to 87.9% of capacity, from only 69.1% at the end of May. Korean crude stocks held relatively flat in May, nudging higher by 1.6 mb. The build came in offshore vessel stocks and despite increased refinery runs as imports were sustained at high levels.



OECD Pacific product inventories built by 11 mb in May to reach 183 mb, or 5 mb above last year. The build came in both Japan and Korea, and was driven by middle distillates. Japanese stocks increased by 5 mb despite maintenance-reduced runs as seasonally low demand lagged year-ago levels. Weekly data show that kerosene and gasoil continued to climb in June, while gasoline, jet, fuel oil and unfinished products declined. Korean product stocks rose by 6 mb in May. The build was centred in middle distillates (and fuel oil) due to low domestic demand and higher refinery output. Korean refinery output is set to slow in June as scheduled maintenance reaches its peak.

OECD Inventory Position at End-May and Revisions to Preliminary Data

Total OECD industry inventories built by 42 mb in May, to 2,673 mb, or 7 mb above last year. For total oil, only Europe continues to trend below year ago levels, as lower product and other oil stocks in North America are offset by a relatively comfortable crude oil cushion. Days of forward demand cover came to 54 for the OECD as a whole, on par with last year and with April. On a regional basis, cover equalled 49 days for North America, 63 days for Europe and 54 days for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for May 2006

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**24.0**	**-10.1**	**11.1**	**25.0**	**Total Oil**	**0.2**	**-1.0**	**1.5**	**0.0**
Total Products	-5.5	-8.6	4.5	-9.7	*Versus 2004*	2.6	2.1	2.1	2.3
Other Oils[1]	-5.5	-1.4	-1.2	-8.2	*Versus 2003*	1.6	2.3	-0.5	1.3
Total Oil	**12.9**	**-20.2**	**14.4**	**7.2**	**Total Products**	**-0.4**	**-0.4**	**0.5**	**-0.3**
Versus 2004	96.3	33.2	20.6	150.1	*Versus 2004*	1.2	1.3	1.8	1.3
Versus 2003	112.8	42.7	8.8	164.2	*Versus 2003*	-0.1	1.2	-0.8	0.1

1 includes feedstocks, NGLs and other hydrocarbons

Preliminary April stock data for OECD countries was, in aggregate, mostly unchanged, as upward revisions to product inventories were cancelled out by downward revisions to crude. The crude revisions, totalling 17 mb, were centred in the Pacific, as Japanese inventories were revised down by 10 mb once changes in offshore stocks were added to preliminary estimates. Canadian crude stocks were once again revised down, this month by 7 mb, although upward revisions to US and Mexico limited the change to total North America. Smaller downward revisions were also seen in Europe.

Product inventories were revised up by 14 mb, the largest change took place in European middle distillate stocks with upward revisions to most European countries. North American product inventories were also revised up by a total of 6 mb, while the Pacific was relatively unchanged. Revisions to Canadian March data were once again responsible for shifting the historical baseline.

Revisions versus 12 June 2006 Oil Market Report
(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Mar 06	Apr 06	Mar 06	Apr 06	Mar 06	Apr 06	Mar 06	Apr 06
Crude Oil	**-11.0**	**-3.2**	**1.2**	**-4.3**	**0.7**	**-9.3**	**-9.1**	**-16.8**
Gasoline	0.0	2.6	-0.8	-2.8	-0.4	-0.1	-1.3	-0.3
Distillates	0.0	2.9	1.5	9.6	-0.4	-0.2	1.1	12.2
Residual Fuel Oil	0.0	-1.6	-0.1	1.2	0.0	0.5	-0.1	0.1
Other Products	-0.1	2.1	0.1	1.0	0.0	-1.1	0.0	2.1
Total Products	**-0.1**	**6.0**	**0.7**	**9.1**	**-0.9**	**-0.9**	**-0.3**	**14.2**
Other Oils[1]	0.2	2.0	0.4	-0.9	0.0	1.1	0.5	2.2
Total Oil	**-11.0**	**4.7**	**2.3**	**3.9**	**-0.3**	**-9.1**	**-8.9**	**-0.5**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

Recent Developments in ARA Independent Storage

Inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area built in June with the largest gains seen in gasoline and gasoil. Gasoline stocks built through most of the month as incoming regional supplies and imports from Russia outpaced shipments to the US, Mexico, West Africa and the Middle East.

Gasoil stocks also built modestly in June and continued to trend at the upper end of their historical range. Increasing refinery margins, as well as a high front month IPE gasoil crack probably encouraged refiners to maximize gasoil yields. Russian arrivals continued apace as declining demand for gasoil from the domestic agricultural sector boosted exports. However, a closed arbitrage from Asia and the US limited the stock build. Furthermore, the persistence of the IPE gasoil contango provided incentives to add product to storage.

Fuel oil inventories rose sharply in June to their highest level in more than 10 years, before falling back at the tail-end of the month. Rising flows from Russia and lack of arbitrage possibilities to Asia supported the increase. The overhang helped widen high-sulphur fuel oil (HSFO) discounts to physical North Sea crudes to more than $24/bbl, the steepest discount since last August when they hit a record level of almost $26/bbl. Stocks slid in the last week, as several VLCCs were loaded for exports to Singapore.

Recent Developments in Singapore Stocks

Singapore product inventories, as surveyed by International Enterprise, moved higher in June with sharp increases seen in middle distillate and residue stocks. Light distillates, including gasoline and naphtha, moved sideways as tight regional gasoline supplies were offset by waning demand from Vietnam, Indonesia and Japan. Steady demand for petrochemicals led to more naphtha cracking at the expense of gasoline reforming, exacerbating gasoline supply tightness. At the tail end of the month, increased supplies due to the return of refineries from maintenance were offset by strengthening regional demand, keeping supplies tight.

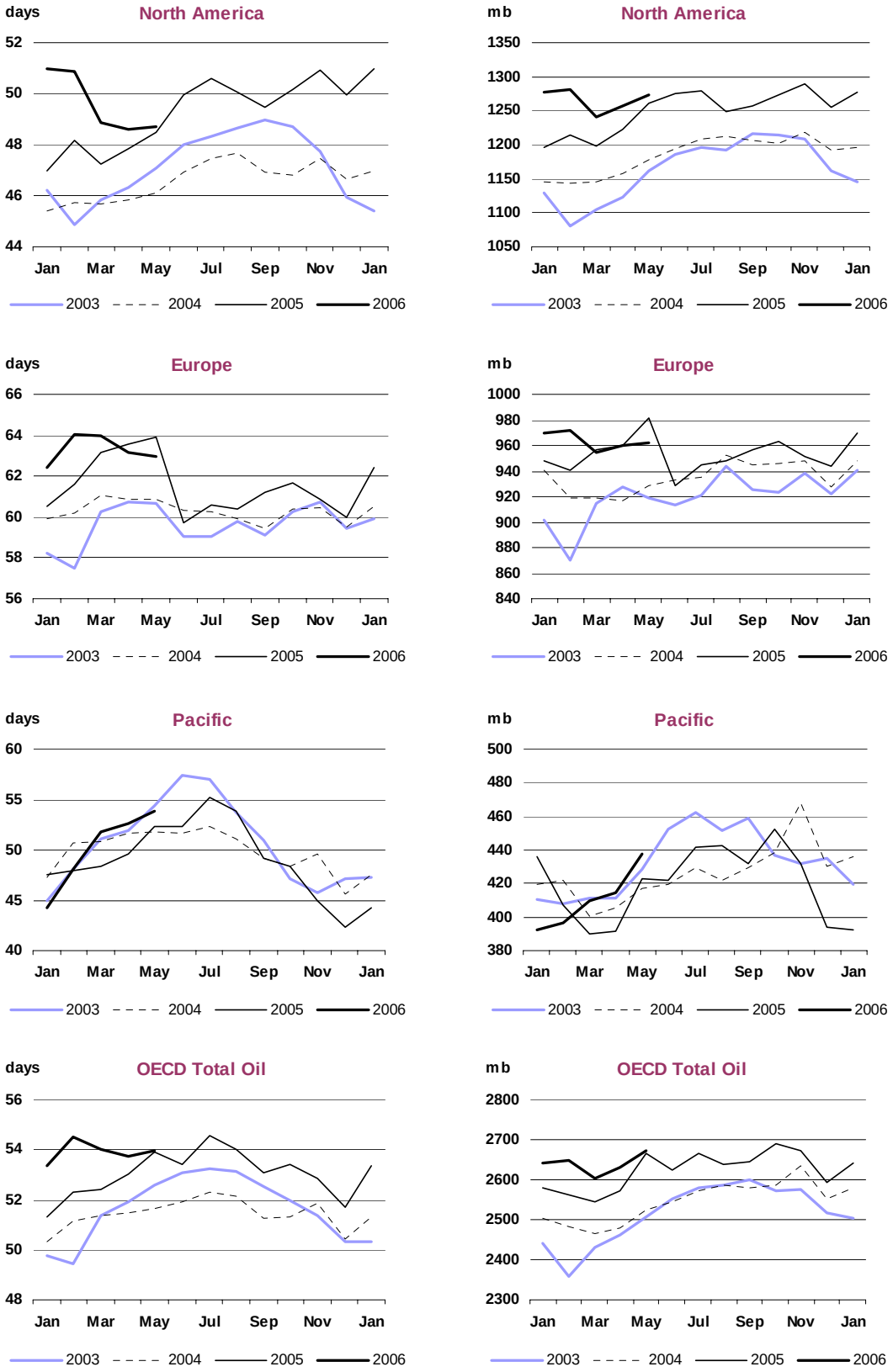
Middle distillate stocks rose sharply in the last week of June, to the highest level seen this time of year since 1999. Earlier in the month, stocks had been falling due to tight regional supplies as well as limited Middle Eastern arrivals. Strong demand from Africa and the Middle East limited Gulf spot supplies and Indonesian imports increased. In the last week of June, stocks surged by 3 mb to 9.5 mb as an abundance of northeast Asian supplies hit the region while arbitrage outlets out of the region remained closed.

Fuel oil inventories also built sharply in June with rising arrivals of western material and surplus Indian exports adding to supplies. Chinese demand has not yet picked up and demand outside of Singapore's bunker blending market remains weak. Low-sulphur waxy residue stocks were also reportedly ample, with lower demand from utilities.

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** crude futures rallied above $75/bbl in early July driven by strong gasoline prices, refinery problems and geopolitical uncertainty. Supply constraints remain in Nigeria, although additional supplies are emerging from Iraq's northern pipeline. Headline-driven reactions to developments involving Iran's nuclear programme continue to have a major impact on sentiment.

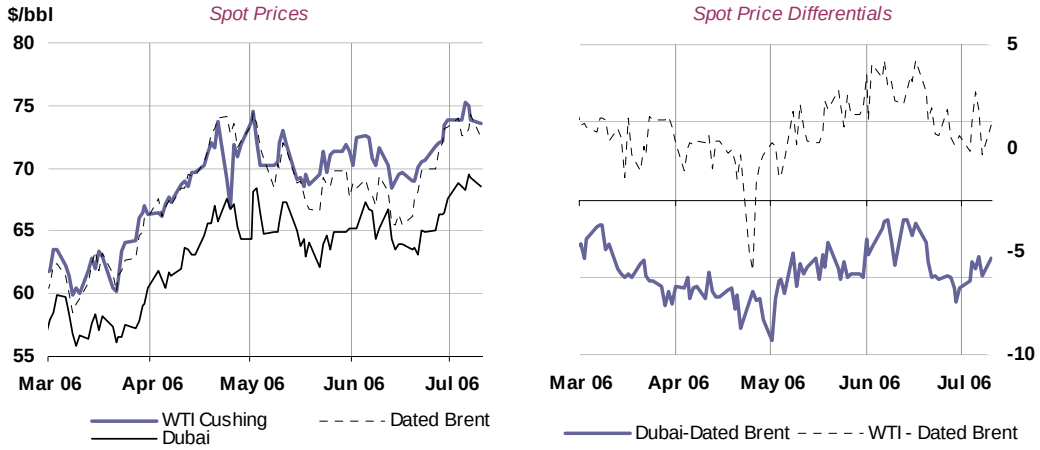
- **NYMEX Henry Hub natural gas prices** fell to their lowest level since October 2004 due to high storage levels. Natural gas competes with fuel oil in the power sector and contributed to lower fuel oil prices in June. This in turn can exert upward pressure on gasoline and light sweet crudes.

- **US gasoline cracks** led regional gains in early July, with strong seasonal demand pushing New York Harbour super unleaded gasoline over $108/bbl. The tightness was predominantly in the high-octane grades that are harder to produce in the summer months. This in turn reflects tight supplies of the high-end components needed to produce the low volatility ethanol-blended gasoline required for the summer months.

- **Ethanol futures prices** on the Chicago Board of Trade declined sharply from a mid-June peak of $4.23/gl ($177/bbl) to $3.60/gl ($150/bbl) in early July. Ethanol prices have risen sharply from lows of $1.15/gl ($48.30/bbl) in May 2005, but increased Brazilian exports and higher US supplies later in the year could temper prices.

- **Crude shipping costs** neared the top of their five-year range for June as Atlantic Basin refiners wound down seasonal maintenance. US refineries finally returned to average seasonal utilisation levels by the end of June while Asian refineries passed peak turnarounds. Competition from both markets to book transportation for July-loading cargoes of Middle Eastern crude pushed June freight rates above seasonal norms in June.

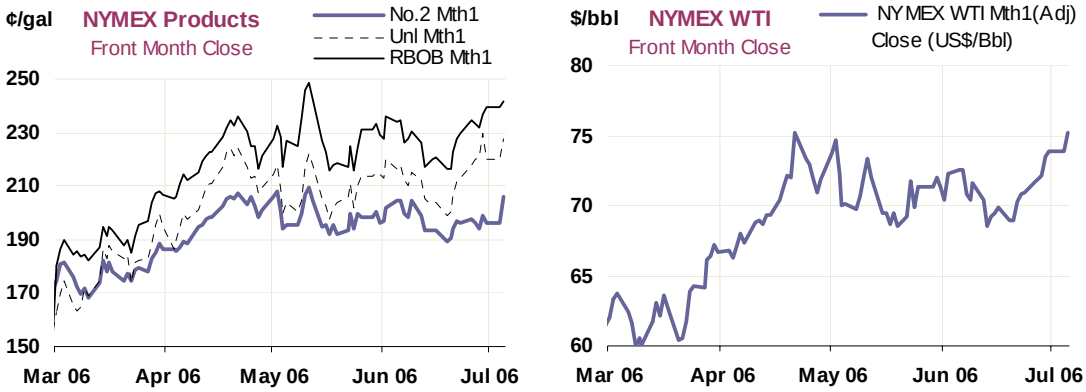
Benchmark Crude Oil Prices



Overview

Benchmark NYMEX WTI light crude futures pushed to new highs above $75/bbl following a $7 rally in mid-June. Strong gasoline prices and attractive refining margins were the main drivers amid a background of geopolitical uncertainty. Global crude supplies have been restricted by Nigerian outages and a production cut by Saudi Arabia, while refinery problems compounded nervousness over changing product specifications in the US. Understandably, there remains considerable nervousness 1regarding Iran, with risk management and speculation driven by the uncertain timing and outcome of an Iranian response to a series of incentives to halt nuclear work.

Nigerian security issues remain a concern, with over 500 kb/d still shut in amid frequent reports of attacks on facilities. As the world refining system reaches peak summer operating rates and refiners are required to produce lower sulphur products, the loss of light sweet crude capacity has a greater price impact. The resumption of flows along the pipeline from Kirkuk in northern Iraq to Ceyhan in Turkey has added to supplies of medium-sour crude in the Mediterranean, augmented by additional flows from the Caspian and Russia. At present, it is unclear how durable these Iraqi supplies will be, but it is a promising sign of an improvement in security along the pipeline.



Saudi Arabian output is around 260 kb/d below February highs, with officials citing a lack of demand for its crude oil. However, Saudi Arabia has also indicated that it "is not prepared to leave any money on the table," suggesting it will not price its crude at a market-clearing rate. Looking at the pricing of Arab heavy relative to a heavy sour topping margin, it would suggest that there has been a broad tightening of the Saudi crude prices during the period when output has been cut. From a domestic perspective, this would appear to be an attempt to maintain revenues. However, it is also a further factor contributing to higher prices. From a market perspective, weakness in HSFO would suggest that heavy sour crude discounts should increase.

Although prices moved briefly to record levels, WTI has been in a broad $67.50 to $75.80 range since mid-April - one of the longest periods of stability since prices started their sharp rise in 2003. Further, although the rise in oil prices from mid-June was seen in all currencies, the prior weakness of the dollar meant that new highs were not seen in yen or euro terms. Other commodities have also been rising, with strong gains seen in base and precious metals, grains, oilseeds, sugar and soft commodities. However, NYMEX Henry Hub natural gas prices have been moving in the opposite direction since mid-June, and have now reached the lowest level since October 2004.

Natural gas competes directly with fuel oil in the power sector and low gas prices can therefore impact the upgrading spread. If fuel oil demand falls, then fuel oil prices have to fall to clear the market. If this happens during a period of peak demand for transportation fuels, the economic incentive for refiners to increase runs is only maintained if there is an offsetting increase in the price of transportation fuels. This both increases the upgrading spread, the difference between fuel oil and gasoline/diesel, and increases demand for light sweet crudes.

Spot Crude Oil Prices

Benchmark crude oil prices were broadly flat for most of June, before rising sharply towards the end of the month. Strong refining margins attracted Atlantic Basin light sweet crudes to the US, bolstering differentials that had been depressed by European refinery outages. In the US, West Texas Sour rallied relative to WTI as more Gulf Coast refining capacity came on stream, but increased offers of Basrah Light provided competition for Mars. US refiners, looking to meet low-sulphur diesel requirements, bought Libyan and Algerian sweet crudes. Demand for foreign crudes received further support from expectations of a dip in Canadian syncrude production in July and August.

European refinery cracking margins were also strong, reflecting strong demand for transportation fuels. However, weak hydroskimming margins were dragged lower at the end of July by weak fuel oil prices, therefore limiting the incentive to run marginal refining capacity in Europe. Urals differentials to dated Brent came under pressure in the middle of June as an overhang of North Sea crude cleared. Further pressure also came from increased Iraqi supplies as flows to Ceyhan have seen sales tenders for 8.6 mb of crude from mid-June to end-July. Bolstering supplies were additional exports from the Caspian and Russia.

West African crude differentials to dated Brent came under pressure towards the end of June on the back of Brent strength and indications that Asian buyers were holding back from the market. Reports of lower Chinese and Taipei demand for West African crude coincide with talk of lagging sales of medium and heavy sweet grades. The decline in Chinese interest follows reports that its refiners bought a record 30 cargoes from the region in March, but volumes have subsequently fallen. However, we note that West African tanker data continues to show much higher volumes of West African crude moving to Asia than newswire surveys of monthly activity, suggesting perhaps that term contracts are not being fully captured.

Spot Crude Oil Prices and Differentials

(monthly and weekly averages, $/bbl)

	Apr	May	Jun	Jun-May		Week Commencing:				
				Avg Change	%	12 Jun	19 Jun	26 Jun	03 Jul	10 Jul
Crudes										
Dated Brent	70.35	69.83	68.69	-1.14	-1.6	66.20	68.35	71.95	73.33	72.39
Brent (Asia) Mth1 adjusted	70.56	71.17	70.47	-0.70	-1.0	69.75	68.94	71.60	74.47	73.90
WTI (Cushing) Mth1 adjusted	69.46	70.92	70.88	-0.05	-0.1	69.36	69.80	72.63	74.72	73.51
Urals (Northwest Europe)	64.90	64.98	64.34	-0.64	-1.0	62.83	63.15	66.42	68.30	68.06
Urals (Mediterranean)	64.95	65.08	64.51	-0.57	-0.9	62.79	63.56	66.82	68.70	68.26
Dubai Mth1 adjusted	64.14	65.00	65.22	0.22	0.3	64.49	64.01	66.36	68.88	68.57
Dubai Swaps Mth1 adjusted	64.85	65.75	65.60	-0.15	-0.2	64.85	64.47	66.73	69.30	68.88
Minas (Dated)	69.17	70.35	68.49	-1.86	-2.6	68.10	66.47	69.04	70.71	71.53
Tapis (Dated)	74.21	74.07	73.11	-0.96	-1.3	72.82	72.12	74.81	76.76	77.01
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	-0.88	1.09	2.19	1.09		3.17	1.45	0.68	1.39	1.12
Urals (Mediterranean)	-5.40	-4.75	-4.18	0.57		-3.41	-4.79	-5.13	-4.63	-4.14
Urals (Northwest Europe)	-5.45	-4.85	-4.34	0.50		-3.37	-5.20	-5.53	-5.03	-4.33
Dubai Mth1 adjusted - Dated Brent	-6.20	-4.83	-3.47	1.36		-1.70	-4.34	-5.60	-4.45	-3.82
Dubai Swaps - Brent Asia	-5.71	-5.42	-4.87	0.54		-4.90	-4.46	-4.87	-5.18	-5.02
Tapis (Dated)	3.87	4.25	4.43	0.18		6.63	3.77	2.86	3.43	4.62
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-0.42	-0.61	-0.64	-0.03		-0.71	-0.57	-0.53	-0.64	-0.68
Forward WTI Cushing Mth1-Mth2 adj	-1.83	-0.94	-0.61	0.33		-0.54	-0.32	-0.90	-1.04	-1.08

Asian crude differentials broadly trended lower against dated Brent, reflecting weaker spot demand from refineries during the tail-end of the maintenance period, together with subdued margins. Dubai was more attractive regionally as a result.

Delivered Crude Prices in April

Average import prices rose 8.5% in April on the prior month, with IEA Europe seeing the highest costs at $66.34/bbl, up $6.73 on April. US import prices, which tend to be lower due to the higher quantity of heavy sour crude used, breached $60 for the first time to reach $60.98/bbl in April. IEA Pacific import prices increased by a modest 2.2%, lagging spot market trends. Overall IEA crude import prices are 31.6% higher than a year ago.

Spot Product Prices

The US market led global gasoline cracks higher in early July, with strong seasonal demand pushing New York Harbour super unleaded gasoline over $108/bbl. The tightness was predominantly in the high-octane grades that are harder to produce in the summer months. This in turn reflects tight supplies of the high-end components needed to produce the low volatility ethanol-blended gasoline required for the summer months. Ethanol prices on the Chicago Board of Trade however declined sharply from a mid-June peak of $4.23/gl ($177/bbl) to $3.60/gl ($150/bbl) in early July. Ethanol prices have risen sharply from lows of $1.15/gl ($48.30/bbl) in October 2005, but increased Brazilian exports and higher US supplies later in the year could temper prices.

With the US market driving gasoline (and therefore crude) prices higher, it is worth revisiting the fundamentals behind the gasoline market. The switch from MTBE to ethanol blending has complicated production and transportation logistics for summer grade gasoline, elevating typical seasonal fears about supply difficulties. Compounding these fears were heavy Atlantic Basin refinery maintenance that pushed combined OECD gasoline stocks below the five-year range of forward demand cover in April and May. Weekly data show increased US refinery activity and high imports

have improved the US supply picture, allowing US gasoline stocks to recover nominally relative to a year ago. However, in terms of forward supply they remain at the bottom of their five-year range.

Spot Product Prices

(monthly and weekly averages, $/bbl)

	Apr	May	Jun	Jun-May		Week Commencing:					Apr	May	Jun
				Change	%	12 Jun	19 Jun	26 Jun	03 Jul	10 Jul			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	82.60	85.20	86.91	1.71	2.0	84.85	84.41	89.53	91.54	92.16	12.26	15.37	18.22
Unleaded	81.20	83.62	85.29	1.68	2.0	83.17	82.95	88.11	90.29	90.82	10.85	13.79	16.61
Naphtha	65.20	66.25	67.84	1.60	2.4	65.96	67.97	70.64	71.59	70.45	-5.14	-3.58	-0.84
Jet/Kerosene	84.93	87.23	87.30	0.06	0.1	86.50	86.21	89.08	89.63	88.04	14.58	17.41	18.61
Gasoil .2%	81.88	83.41	83.46	0.05	0.1	82.35	82.23	84.95	85.56	84.08	11.54	13.58	14.77
LSFO 1%	49.67	49.01	46.43	-2.58	-5.3	45.98	44.54	46.17	47.08	46.05	-20.68	-20.82	-22.26
HSFO 3.5%	49.70	50.18	46.50	-3.68	-7.3	46.14	44.65	46.55	46.88	46.69	-20.65	-19.65	-22.19
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm *	80.50	84.39	84.87	0.48	0.6	82.51	82.11	88.46	90.44	91.02	15.55	19.32	20.36
Naphtha	64.34	65.40	66.99	1.59	2.4	65.16	66.86	69.49	70.51	69.35	-0.61	0.33	2.48
Jet Aviation fuel	83.75	85.93	85.81	-0.12	-0.1	85.31	84.61	86.59	87.37	86.42	18.80	20.85	21.30
Gasoil .2%	80.89	83.65	83.40	-0.25	-0.3	82.67	82.04	84.01	83.39	81.87	15.94	18.57	18.88
LSFO 1%	49.55	50.83	48.81	-2.02	-4.0	48.63	47.57	49.23	49.58	48.88	-15.40	-14.25	-15.70
HSFO 3.5%	48.25	48.42	46.36	-2.06	-4.2	45.97	44.83	46.79	47.39	47.24	-16.70	-16.66	-18.15
New York Harbour, Barges						10.05	12.08	12.75	15.10	16.85	**Differential to WTI**		
Super Unleaded	99.30	100.03	98.73	-1.30	-1.3	93.55	96.02	104.25	108.77	106.29	29.83	29.11	27.86
Unleaded	88.80	86.24	86.99	0.75	0.9	83.50	83.94	91.50	93.67	89.44	19.34	15.32	16.12
Jet/Kerosene	88.26	89.05	86.98	-2.07	-2.3	86.59	83.89	86.49	90.38	87.97	18.80	18.13	16.11
No. 2 (Heating Oil)	83.16	82.73	80.52	-2.22	-2.7	79.54	78.27	80.46	81.81	78.52	13.69	11.81	9.64
LSFO 1%	51.03	49.25	48.32	-0.94	-1.9	48.93	47.65	46.91	47.22	47.00	-18.43	-21.67	-22.56
No. 6 3%	48.77	48.58	47.42	-1.16	-2.4	47.37	46.80	46.35	46.75	46.75	-20.69	-22.34	-23.45
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	81.13	86.80	82.76	-4.05	-4.7	82.71	79.58	83.36	85.54	84.63	16.99	21.80	17.54
Naphtha	64.45	65.59	68.06	2.47	3.8	67.22	68.12	70.35	71.37	70.59	0.30	0.59	2.84
Jet/Kerosene	84.77	85.55	86.18	0.64	0.7	86.23	84.94	86.45	86.75	85.61	20.62	20.55	20.96
Gasoil .5%	82.99	84.18	85.88	1.70	2.0	87.64	85.59	84.95	86.67	85.19	18.85	19.18	20.66
LSWR Cracked	58.08	58.04	57.68	-0.37	-0.6	57.59	55.71	57.41	59.10	57.85	-6.07	-6.96	-7.55
HSFO 180 CST	53.88	53.73	50.72	-3.00	-5.6	50.65	49.48	50.95	52.72	52.56	-10.26	-11.27	-14.50
HSFO 380 CST 4%	53.79	53.79	50.80	-2.99	-5.6	50.37	49.56	51.28	52.82	52.36	-10.35	-11.21	-14.42

* From January 2005 Premium Unleaded 50 ppm

The Colonial Pipeline's freezing of nominations for its 39th cycle and its allocated 40th cycle is a further reflection of improved domestic supply. When demand for space through the pipeline exceeds capacity the company makes a proportionate allocation of capacity. This is normal for the summer season, but also suggests that supplies have improved. Further, there has recently been a renewed build up in ARA independent storage, opening the window for additional arbitrage shipments to the US. In the first 10 days of July, wire reports estimated that around 8 mb of gasoline would be shipped to the US and Mexico. While US gasoline demand has picked up recently, supplies appear sufficient to ease some fears that the market will tighten over the summer months. In addition, the Asian market should also ease as regional refinery maintenance ends and product supplies expand.

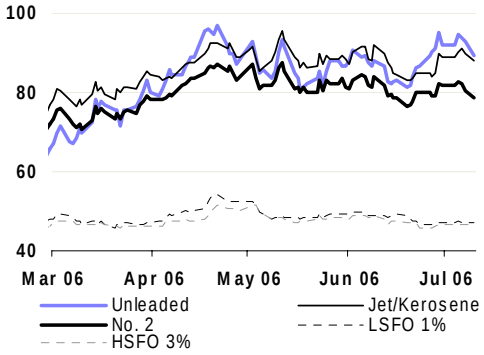
Apparent Asian gasoline demand has been strong recently – domestic refinery problems have inflated Indonesian import requirements and regional demand broadly increases over the summer. Vietnam's Petrolimex was tendering for 316,000 tonnes in 3Q, up from 253,000 tonnes in 2Q.

Chinese apparent demand has also been strong, with refiners restricting exports. While refinery problems have prompted one key Chinese refiner to scale back on August export plans, there are mixed reports on why exports have declined in recent months. Strong demand is an obvious cause, but there are also reports that there has been some pressure from Chinese authorities to boost domestic supplies. Recent reports suggest that this has allowed domestic stocks to increase.

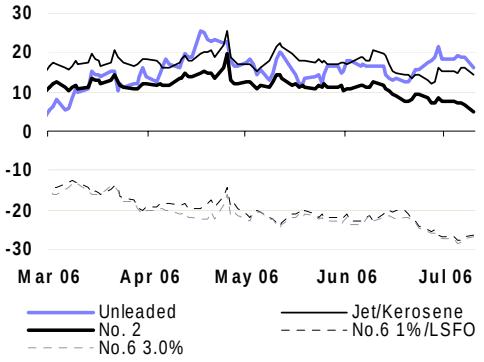
However, despite this short-term apparent demand strength, Asian gasoline differentials to Dubai crude only blipped higher at the end of June, before trending back to recent lows in early July. This suggests that regional refinery output is offsetting any increase in offtake.

Product Prices and Differentials to Benchmark Crude Oil Prices

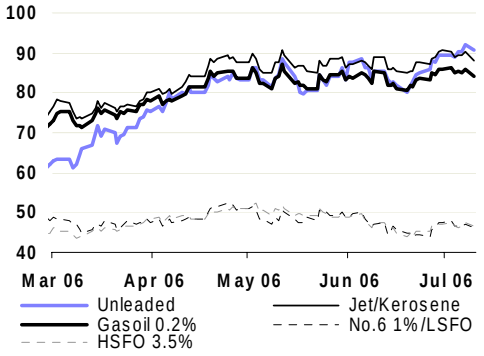
$/bbl **New York Harbour Spot Product Prices** (Fob Barges)



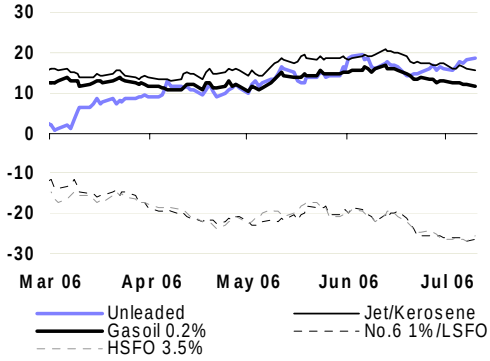
$/bbl **New York Harbour Product Spreads to** WTI (Fob Barges)



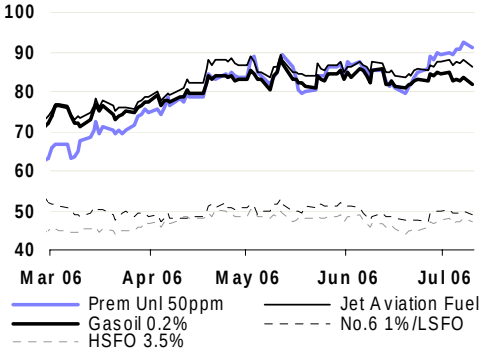
$/bbl **Northwest Europe Spot Product Prices** (Fob Barges)



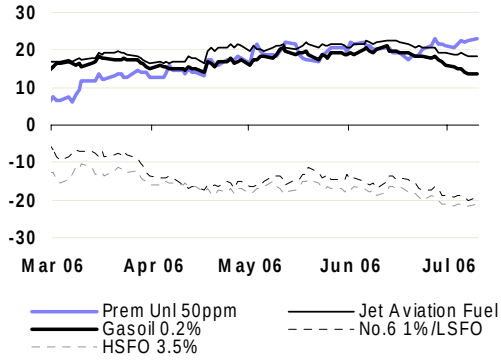
$/bbl **Northwest Europe Product Spreads to** Brent (Fob Barges)



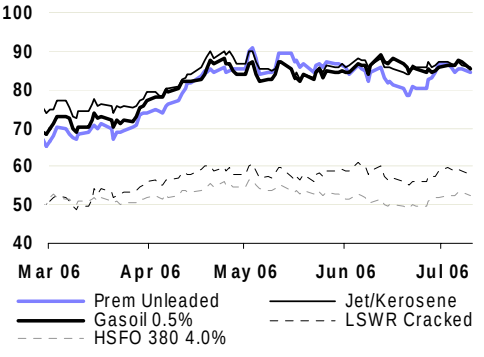
$/bbl **Mediterranean Spot Product Prices (Fob Cargoes)**



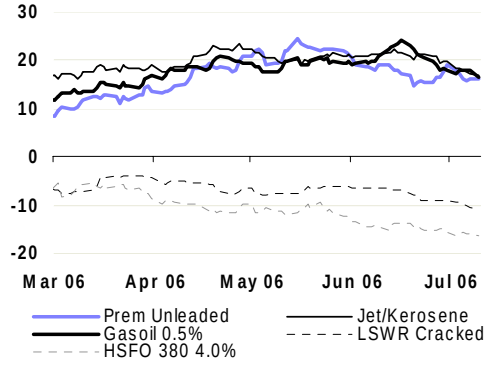
$/bbl **Mediterranean Product Spreads to Urals (Fob Cargoes)**



$/bbl **Singapore Spot Product Prices** (Fob)

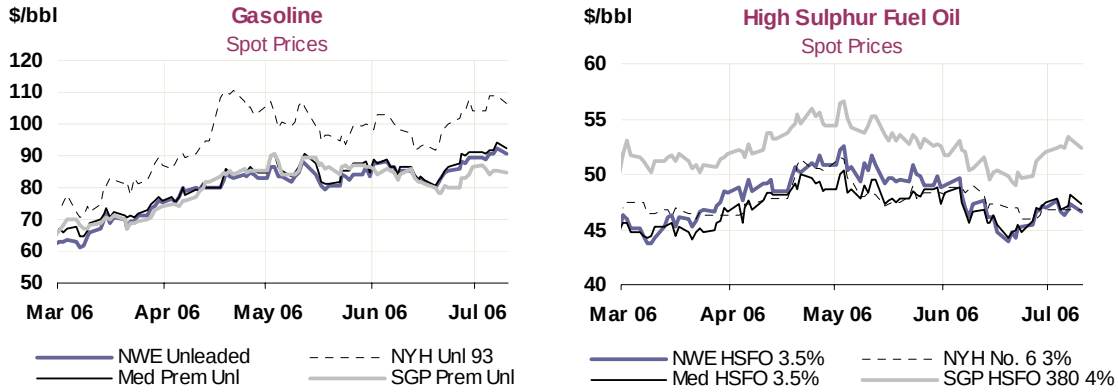


$/bbl **Singapore Product Spreads to Dubai** (Fob)



Gasoil differentials trended lower in all regions in June and early July in line with improved regional supplies and stronger crude prices. Diesel differentials in the US Mid West have been strong recently, reflecting seasonal demand from the agricultural sector, which has in turn pushed up prices in New York Harbour.

High exports of Russian gasoil led to abundant high-sulphur gasoil supplies in the Mediterranean region. However, low-sulphur diesel was tight, lifting differentials of 50 ppm material to IPE gasoil. Some of this tightness was related to desulphurisation problems, and the pending summer driving season. A notional opening of the transAtlantic arbitrage window for ULSD from Europe to the US tightened the European market. However, given that diesel typically moves from the US to Europe in the summer months, this reversal of flows could be a potential cause for concern. Demand for high-sulphur material for domestic heating was said to be relatively lacklustre.



Asian gasoil differentials spiked in mid-June, with the tightness underpinned by strong Indonesian demand for high-sulphur material, against a backdrop of lower supplies. Korean refiners have recently added desulphurisation capacity to meet growing regional demand for low-sulphur material. Asian jet fuel prices also came under pressure due to high Korean supplies and incoming Middle Eastern cargoes. This allowed some Korean material to move to the US West Coast.

Fuel oil prices came under pressure as refiners ramped-up throughput ahead of the summer driving season. Increased fuel oil supplies pushed high-sulphur material to a $28 discount to WTI in New York Harbour. Further pressure is also coming from weak natural gas prices. European fuel oil prices were similarly weak, with HSFO falling to record lows against Brent as refiners crank up throughputs. ARA stocks reached their highest level in 10 years in early June, before falling as cargoes were arbitraged to Asia.

End-User Product Prices in June

Weakening global product prices in June brought relief at the pumps in OECD consumer countries. Excluding tax, end-user gasoline and automotive diesel prices on a US dollar-basis fell by between one and four percent in June across OECD European countries, US and Japan. Canadian consumers experienced a small price rise in both fuels. Average monthly prices for domestic heating oil and low-sulphur fuel oil for industry also fell in all regions surveyed in June. Most notably, UK consumers paid 5.8% less for heating oil and 7.3% less for industrial LSFO excluding tax, in US-dollar terms.

Freight

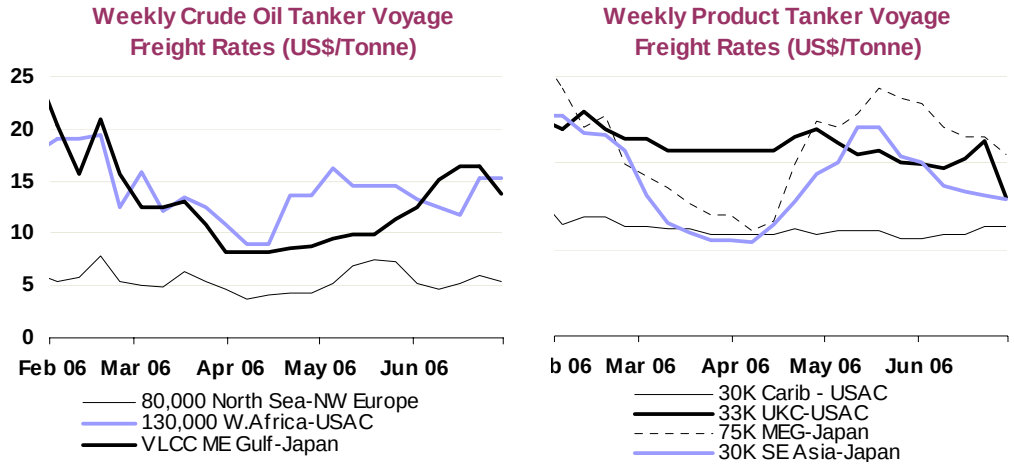
Crude shipping costs neared the top of their five-year range for June as Atlantic Basin refiners wound down seasonal maintenance. US refineries finally returned to average seasonal utilisation levels by the end of June while Asian refineries passed peak turnarounds. Competition from both markets to book transportation for July-loading cargoes of Middle Eastern crude pushed June freight rates above seasonal norms.

Reports of VLCCs being used for temporary storage in the Middle East added further upwards pressure. VLCC rates from the Arabian Gulf to US Gulf rose from $20/tonne at the end of May to $25/tonne in mid-June and remained over $24/tonne into July. Vela, the Saudi Aramco chartering arm, booked tankers to transport over 16 mb of July-loading Middle Eastern crude to the West. VLCC rates

to Japan peaked at $17/tonne in June having ended May under $12/tonne. They fell below $14/tonne in July as booking activity slowed. Interestingly, Iranian chartering for July VLCCs was slow.

Freight rates are typically weak in June, so the recent increase adds weight to the suggestion that higher trade and floating storage are absorbing large fleet additions this year. Accordingly, some investment banks raised their ratings for tanker companies such as Frontline, OSG and Tsakos in June.

Demand for light sweet crude typically increases in the summer in line with higher demand for transportation fuels, but has been accentuated this year by the need to meet new low-sulphur fuel mandates. US charterers sought tankers to import spot purchases of light, low-sulphur crude from Algeria, the North Sea and West Africa. West African Suezmax rates to US Gulf jumped almost $10/tonne in eight days to reach over $24/tonne on 22 June, pushing rates above the five-year range. Heightened Atlantic activity drew interest away from Aframaxes trading in the Caribbean. However, an oil spill from Citgo's Lake Charles Refinery on June 21 caused a week-long closure of Calcasieu shipping channel. Aframaxes and smaller vessels to transport crude to three major refineries use this waterway. The resulting delays reduced regional vessel availability and pushed up Caribbean Aframax rates from below $8/tonne on 22 June to over $12/tonne in early July.



High US product imports supported clean tanker demand in the Atlantic basin in June. Strong seasonal demand for automotive fuels, a slow return to usual June refinery utilisation, and new diesel specifications all combined to boost US imports of gasoline, blending components and ULSD. This caused notable congestion at New York Harbour. Spot tanker rates for 25,000-tonne clean cargoes from Europe to US Gulf rose from $30/tonne to $38/tonne in the second half of June.

New US diesel specifications also created rare backhaul opportunities for high-sulphur diesel to move back across the Atlantic towards Europe. South American export activity to the US contributed to lower clean vessel availability in the Caribbean and supported rates. This offset weaker demand for product tankers in the Middle East, where strong domestic product demand dampened export levels, particularly for diesel. Asian product rates weakened in June.

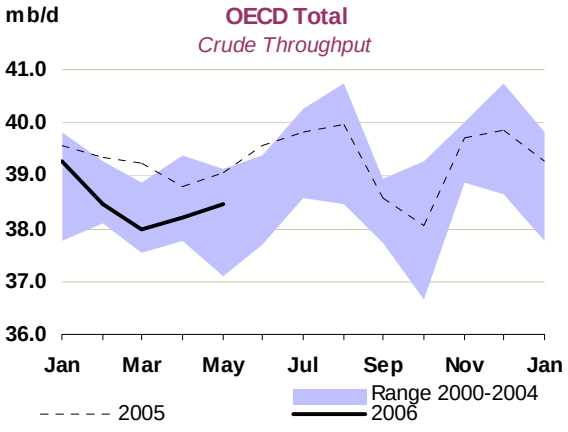
REFINERY ACTIVITY

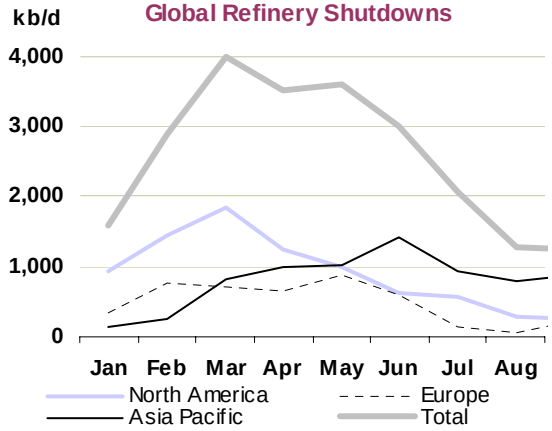
Summary

- **Full cost refining margins** in June remained at historically high levels for complex refineries, but remained negative on a hydroskimming basis. Light product cracks averaged more than $20/bbl in Asia, Europe and the US, while fuel oil cracks fell. Atlantic Basin margins diverged from Asia in June as stronger gasoline cracks, particularly on the US Gulf Coast boosted overall profitability. However, Pacific margins were weaker as US West Coast light product cracks fell steeply with a knock-on impact on Singapore margins. Fuel oil was universally weak relative to crude, weighing on margins globally and in particular on the profitability of hydroskimming refineries**.**

- **Refining margins** on the US Gulf Coast rebounded from the fall in May. Cracking margins for Light Louisiana Sweet crude increased by $2.15/bbl to average $10.62/bbl. On the US West Coast margins fell as gasoline cracks weakened by $6-8/bbl from May and gasoil/diesel cracks were around $4/bbl lower. ANS cracking margins averaged $8.83/bbl in June, down $4.29/bbl from May.

- **European refining margins** saw more modest increases as limited gains in gasoline cracks and weakness in fuel oil, held back overall increases. The relative strength of Urals prices favoured sweet crude margins in June. European product markets remain tight with average Urals cracking margins of $9.46/bbl in Northwest Europe and $9.22/bbl in the Mediterranean. Dubai hydrocracking margins in Singapore averaged $4.52/bbl, down $0.83/bbl, as weaker gasoline and fuel oil cracks offset strength in gasoil.





- **OECD crude throughputs** continued to recover in May, although progress was slowed by unplanned outages in Europe and the US. Crude runs increased by 266 kb/d to 38.48 mb/d, as Atlantic Basin maintenance wound down but Pacific maintenance intensified. Crude throughput was some 560 kb/d below May 2005 levels with the persistent year-on-year shortfall in the US accounting for the majority of the difference. European throughputs averaged 13.24 mb/d in May as unplanned outages cut runs. North American runs averaged 18.42 mb/d in May, up 566 kb/d from April, driven by the 495 kb/d gain in the US. OECD Pacific throughputs declined by 158 kb/d to average 6.82 mb/d in May.

- **Offline refinery capacity** estimates have increased for June to 2.4 mb/d May remains the peak month for offline OECD capacity in the first half of the year, with our estimate unchanged at 2.8 mb/d. Global offline capacity peaked in March at roughly 4 mb/d and should decline over the course of the second and third quarters, in line with seasonal patterns.

Refining Margins

OECD North America

West Coast margins in June were strong on a historical basis, but have retreated from the record highs seen in May. Early month strength in margins faded as refineries that had delayed restarts from unplanned outages increased crude throughputs. The rising supply of product on the West Coast cut product cracks by $6-8/bbl for gasoline and $5/bbl on diesel and gasoil. West Coast ANS cracking

margins averaged $8.83/bbl in June, $4.29/bbl lower than in May. Kern coking margins remain the strongest of those covered in this report, averaging $28.22/bbl, down $4.29/bbl from May. The decline in coking margins reflects the lower light product cracks, while cracking margins were also affected by weaker fuel oil cracks which finished June at $21.43 below ANS.

Selected Refining Margins in Major Refining Centres

($/bbl)

		Monthly Average			Change	Week Ending:				
		Apr 06	May 06	Jun 06	Jun 06-May 06	02 Jun	09 Jun	16 Jun	23 Jun	30 Jun
NW Europe	Brent (Cracking)	4.17	6.49	6.93	0.45	7.64	8.37	8.75	6.33	6.29
	Urals (Cracking)	7.86	9.52	9.46	-0.07	9.56	9.82	9.98	9.39	9.54
	Brent (Hydroskimming)	-3.06	-1.79	-1.52	0.27	-0.11	0.31	1.14	-1.24	-2.15
	Urals (Hydroskimming)	-0.99	-0.28	-0.55	-0.27	-0.05	-0.22	0.29	-0.51	-1.22
Mediterranean	Es Sider (Cracking)	5.30	7.73	8.30	0.57	8.32	8.65	8.77	7.46	8.14
	Urals (Cracking)	6.57	8.90	9.22	0.32	9.05	9.54	9.67	8.56	9.04
	Es Sider (Hydroskimming)	-2.37	-0.44	-0.27	0.17	0.02	-0.04	0.69	-0.77	-1.17
	Urals (Hydroskimming)	-2.35	-0.77	-0.95	-0.18	-1.00	-0.62	-0.04	-1.34	-1.88
US Gulf Coast	Brent (Cracking)	7.11	4.60	6.67	2.07	6.05	8.67	7.73	4.70	5.16
	LLS (Cracking)	11.49	8.47	10.62	2.15	9.64	12.80	10.69	9.06	9.64
	Mars (Cracking)	9.15	6.37	6.47	0.10	5.94	7.49	6.33	5.20	6.56
	Mars (Coking)	17.36	14.48	16.10	1.63	14.76	17.13	15.75	14.76	16.61
	Maya (Coking)	22.13	19.40	23.10	3.70	20.77	23.71	22.55	22.59	23.59
US West Coast	ANS (Cracking)	12.69	13.12	8.83	-4.29	10.61	8.82	8.65	8.17	9.14
	Kern (Cracking)	12.08	12.21	7.54	-4.68	9.62	7.46	7.28	6.92	7.78
	Oman (Cracking)	12.15	12.66	7.97	-4.69	10.72	8.03	6.90	7.23	8.90
	Kern (Coking)	31.68	32.51	28.22	-4.29	30.01	26.91	26.08	27.37	31.93
Singapore	Dubai (Hydroskimming)	0.08	0.00	-1.31	-1.31	-0.65	-1.49	-0.45	-1.19	-2.18
	Tapis (Hydroskimming)	-4.25	-2.57	-1.41	1.16	-0.85	-0.39	-0.70	-1.68	-3.06
	Dubai (Hydrocracking)	4.74	5.35	4.52	-0.83	5.02	4.33	5.62	4.57	3.58
	Tapis (Hydrocracking)	-1.52	0.64	1.93	1.29	2.28	2.73	2.79	1.79	0.34
China	Cabinda (Hydroskimming)	-5.15	-3.71	-2.08	1.63	-3.12	-1.98	0.02	-2.07	-3.92
	Daqing (Hydroskimming)	-5.05	-5.62	-3.80	1.82	-4.38	-3.71	-3.27	-3.40	-4.61
	Dubai (Hydroskimming)	-0.22	-0.37	-1.95	-1.58	-1.13	-2.13	-1.15	-1.88	-2.76
	Daqing (Hydrocracking)	-0.29	0.11	1.51	1.40	1.09	1.49	2.00	1.76	1.01
	Dubai (Hydrocracking)	4.50	5.00	3.92	-1.08	4.55	3.72	4.95	3.91	3.05

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.

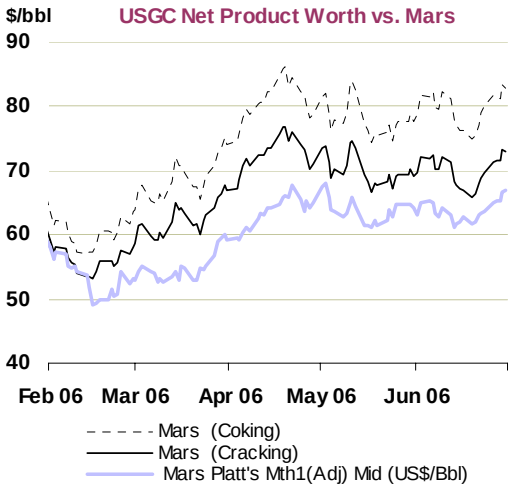
Sources: IEA, Purvin & Gertz Inc.

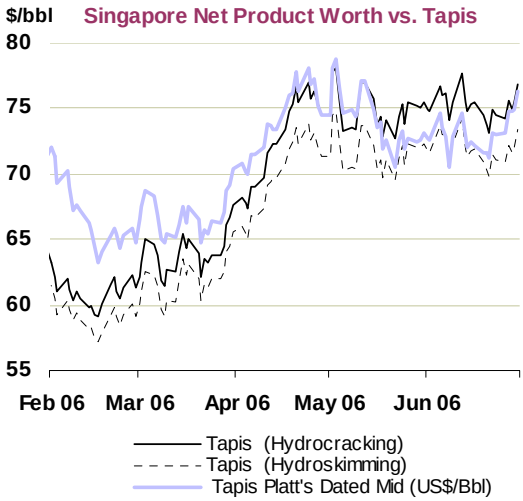
US Gulf Coast margins rebounded from the weaker levels seen in May as rising gasoline and diesel cracks offset the weaker fuel oil and gasoil cracks. Light sweet cracking margins outperformed those for sour crudes as the higher fuel oil yield for Mars crude weighed on its overall profitability. The introduction of ultra-low-sulphur diesel (ULSD) proceeded smoothly and weekly stock data indicate that refineries are building stocks of sub-15ppm sulphur material in place of the higher 15-500ppm grade. US Gulf Coast cracking margins for light sweet crudes increased on average by $2.11/bbl, with Light Louisiana Sweet crude averaging $10.62/bbl. Mars cracking margins increased by only $0.10/bbl, to average $6.47/bbl. The strength in Mars crude prices and weakness in high-sulphur fuel oil (HSFO) cracks, which declined by $4/bbl over the month held back gains. Mars coking margins were $1.63/bbl higher at $16.10/bbl, similarly reflecting the stronger Mars crude price, but also the improvement in gasoline cracks.

OECD Europe

European margins in June were higher for light sweet crudes but weaker for medium sour grades. In contrast to the US Gulf Coast, cracking margins on medium-sour crudes, such as Urals, remain more profitable than those achievable on light sweet crudes, such as Brent and Es Sider.

The strength in European cracking margins, suggests that light product markets continue to face a tight product supply situation, due to high levels of offline capacity. Problems with a catalytic cracking unit at Shell's Pernis refinery in Rotterdam are apparently ongoing, while in the Mediterranean ERG's ISAB Sud refinery on Sicily is now expected to reach full crude runs in mid-July, three weeks later then previously estimated. These and various other shutdowns have been major contributors to Europe's tighter product supply picture in recent weeks.





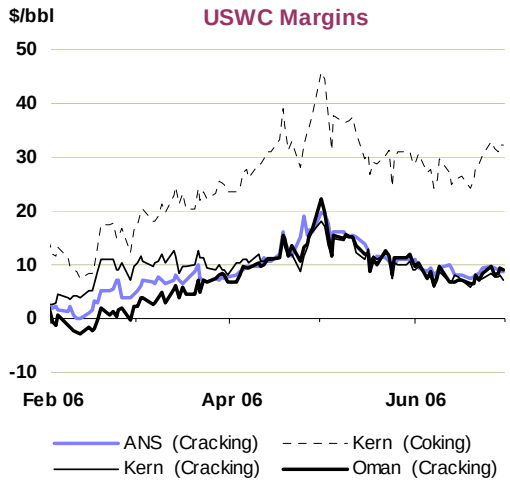
High levels of Russian gasoil and fuel oil imports into Europe undermined these product cracks relative to others in the region. Only the prospect of continued significant exports of HSFO from the Baltics and ARA to the Far East has provided support to fuel oil prices. Similarly, gasoline cracks were supported by the open arbitrage for high quality blending components to the US. NWE hydroskimming margins turned briefly positive during June, but the deterioration in low- and high-sulphur fuel oil cracks in the second half of the month subsequently eroded hydroskimming profitability.

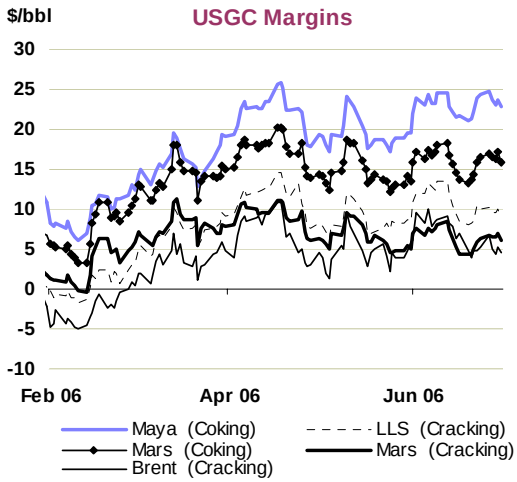
Asia

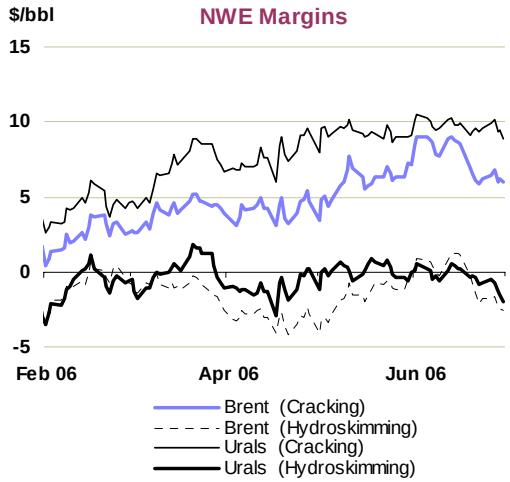
In June Asian margins were undermined by a combination of weaker gasoline and HSFO cracks and by the strong price of Dubai crude. However, weakness in light sweet crude prices boosted Tapis margins. Dubai hydrocracking margins fell by $0.83/bbl from May, but remain healthy, averaging $4.52/bbl. Hydroskimming margins on Dubai crude weakened further, down by 1.31/bbl, due to the higher fuel-oil yield. Tapis margins were boosted over the course of the month by the continued decline in Tapis prices relative to Dubai. Hydroskimming margins remained negative on regional sweet crudes such as Daqing in China. Simple margins, although stronger on the back of improved gasoil, naphtha and jet fuel cracks, continue to suffer from the heavily negative low-sulphur waxy residue crack.

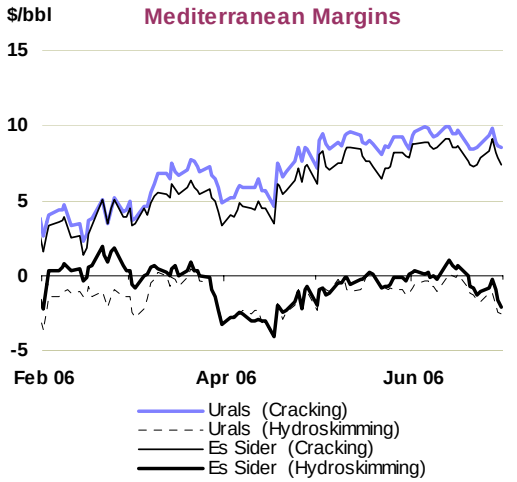
The arrival of fuel oil imports from the Caribbean, Europe and the FSU and muted buying interest from China all pressured fuel oil prices. Consequently, HSFO cracks decreased by over $3/bbl on average in June and ended the month close to their lowest level for the last eight years. The return of refineries in Japan from seasonal maintenance eased gasoline market tightness and with the closure of the arbitrage to the US West Coast, gasoline cracks fell by an average of over $4/bbl from May.

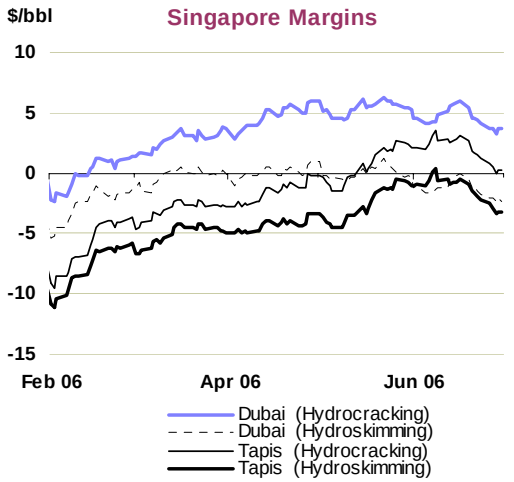
Regional Full-Cost Refining Margins

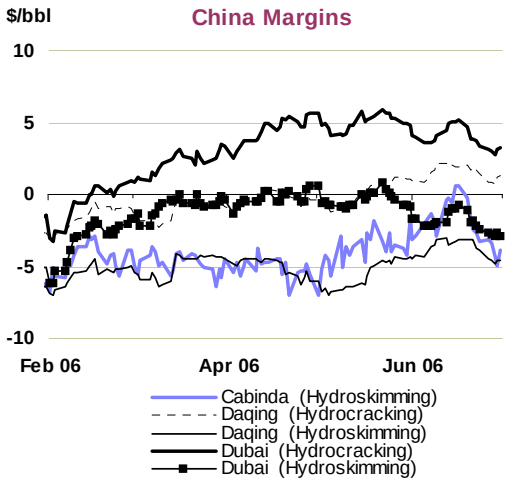












Refinery Throughput

OECD refinery throughputs in May increased by 266 kb/d to an estimated 38.48 mb/d, from a downward revised (-426 kb/d) April figure. This continued the April recovery from the low levels seen in March. Increases in crude runs in North America outpaced the declines seen in Europe and the Pacific. The focus of refinery maintenance continues to move from the Atlantic Basin to the Pacific, where Japanese maintenance reached its May peak. Average OECD throughputs are 559 kb/d below May 2005's level, with only the Pacific registering a gain versus last year's level. As a result, the average OECD capacity utilisation rate in May was 85.5% for the month, compared to 87.5% this time last year. Weekly US data, combined with our estimate of offline capacity suggest that June crude runs should increase from May's level and again in July, which is in line with seasonal norms.

OECD North America

Provisional data for May show that North American crude throughputs increased by 566 kb/d to an estimated 18.42 mb/d. The increase from April's downward revised level of 17.86 mb/d (-105 kb/d) reflects the continued reduction in maintenance work in the region, and lower level of unplanned outages. Some further improvements are likely over the coming months as crude runs were 492 kb/d below last year's level.

Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*	*May 05*	Utilisation rate[2]	
	Dec 05	Jan 06	Feb 06	Mar 06	Apr 06	May 06	mb/d	%	May 06	May 05
OECD North America										
US[3]	15.03	14.81	14.58	14.58	14.94	15.43	-0.46	-2.9	89.03	93.22
Canada	1.79	1.79	1.83	1.64	1.66	1.78	0.03	1.4	88.00	86.75
Mexico	1.31	1.33	1.23	1.19	1.26	1.22	-0.06	-4.5	72.18	71.96
Total	18.14	17.93	17.65	17.42	17.86	18.42	-0.49	-2.6	87.58	91.16
OECD Europe										
France	1.82	1.76	1.54	1.57	1.49	1.51	-0.05	-3.3	76.45	80.16
Germany	2.41	2.28	2.31	2.08	2.30	2.37	0.03	1.3	97.55	95.36
Italy	1.89	1.86	1.88	1.82	1.81	1.50	-0.45	-22.9	64.63	83.93
Netherlands	1.05	0.91	1.04	1.00	0.88	0.92	-0.21	-18.6	75.57	92.38
Spain	1.20	1.23	1.21	1.24	1.20	1.22	0.04	3.0	95.56	92.75
UK	1.68	1.59	1.57	1.44	1.51	1.59	-0.03	-2.0	84.59	88.78
Other OECD Europe	4.09	4.07	3.90	3.99	4.19	4.13	0.36	9.5	85.57	80.70
Total	14.15	13.69	13.44	13.15	13.38	13.24	-0.32	-2.3	83.12	86.22
OECD Pacific										
Japan	4.31	4.40	4.27	4.31	3.96	3.60	0.02	0.6	77.11	76.09
Korea	2.54	2.53	2.44	2.41	2.33	2.52	0.19	8.1	97.76	90.39
Other OECD Pacific	0.73	0.72	0.67	0.69	0.69	0.70	0.04	5.9	86.33	76.46
Total	7.58	7.65	7.39	7.41	6.97	6.82	0.25	3.8	84.64	80.65
OECD Total	39.86	39.27	38.47	37.97	38.21	38.48	-0.56	-1.4	85.48	87.50

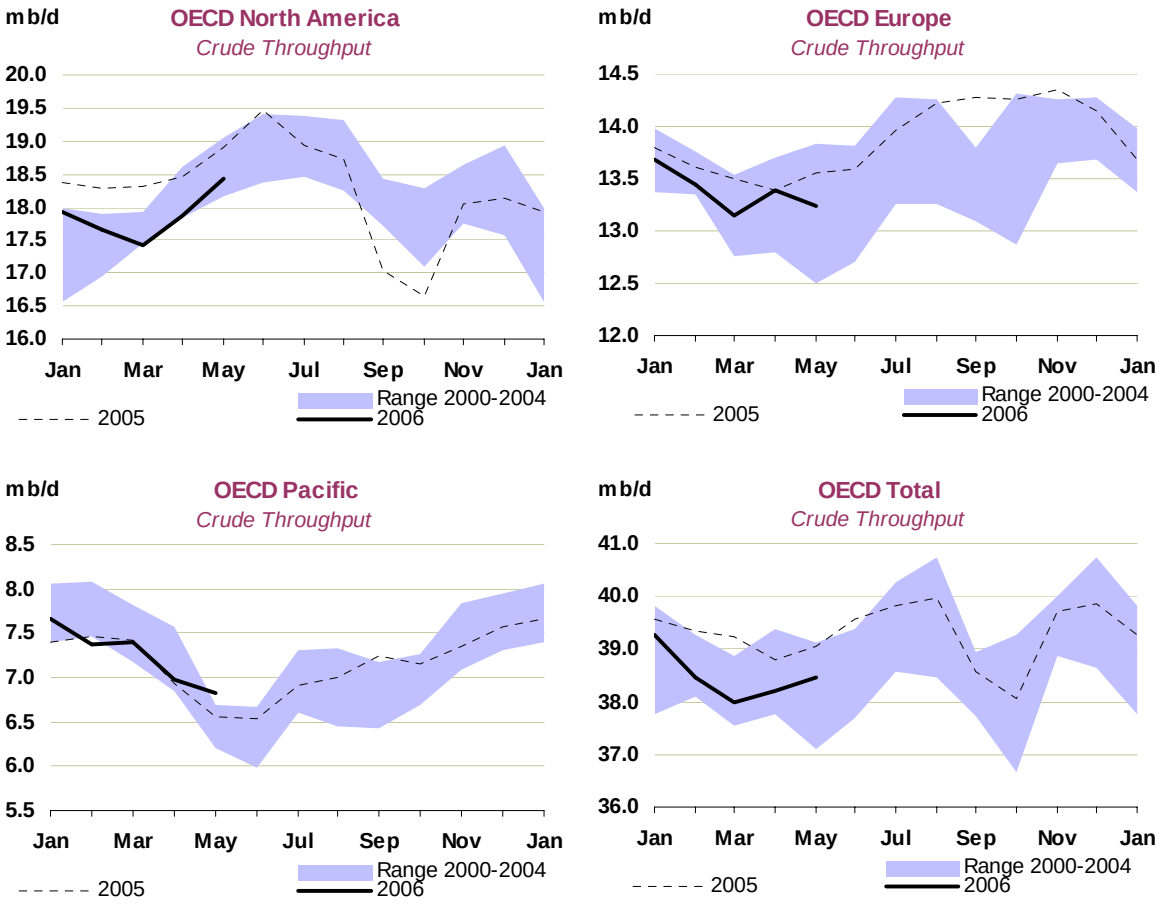
1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

May US throughputs were, on average, 15.43 mb/d, 495 kb/d above April's level, but still some 460 kb/d lower than May 2005 levels. Average capacity utilisation increased to 89%, 3% higher than April's 86%, but still 4% below last year. Adjusting for offline capacity suggests refineries ran at 94% of available capacity, which is equal to the rate achieved in May 2005. Weekly US data point to a continued recovery in crude throughputs in June. By late month crude runs peaked at 16.1 mb/d in the US Logistical problems on the Gulf Coast, following the closure of the Calcasieu shipping channel, cut runs to 15.9 mb/d in early July.

OECD Europe

As expected, European crude throughputs were lower in May, falling 142 kb/d below April's downward revised (-163 kb/d) level of 13.38 kb/d Crude runs of 13.24 mb/d were also 316 kb/d lower than May 2005's level. The decline was largely due to lower throughputs in Italy, which were 312 kb/d lower than in April and 446 kb/d lower than May 2005. The unplanned outage at ERG's ISAB South facility, coinciding with a planned shutdown at the ISAB North plant, effectively removed almost 400 kb/d from available capacity for the month. The ongoing problems at Shell's Pernis refinery are estimated to have curtailed crude runs by 140 kb/d, with reports suggesting that the

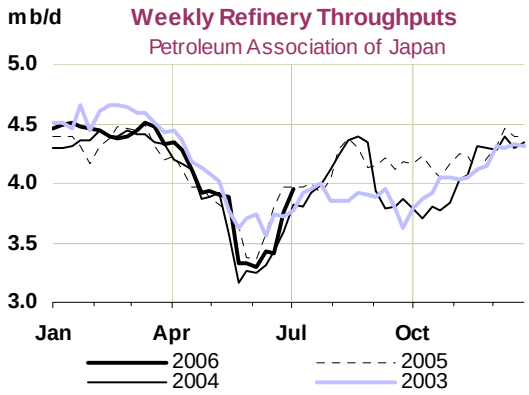
restart of a catalytic cracking unit should be achieved by mid-July. The long-term nature of this refinery problem has kept throughput levels at least 200 kb/d below last year.



Increased throughputs in Germany (+66 kb/d) and the UK (+82 kb/d), are in line with our estimate of reduced offline capacity in May. However, we would have expected French crude runs to have recovered more sharply in May, raising the possibility that Total's La Mede refinery returned from turnaround more slowly than anticipated. OECD Europe crude throughputs should increase in June and July ahead of peak driving season, possibly reaching 14 mb/d in July.

OECD Pacific

OECD Pacific crude throughputs are estimated to have declined by a further 157 kb/d to 6.82 mb/d in May. In line with seasonal norms, crude runs declined for the second month running, but were still 249 kb/d above the level of May 2005. In Japan peak seasonal maintenance cut throughputs by 355 kb/d, to 3.6 mb/d, from the downward revised (-147 kb/d) April level of 4.31 mb/d.

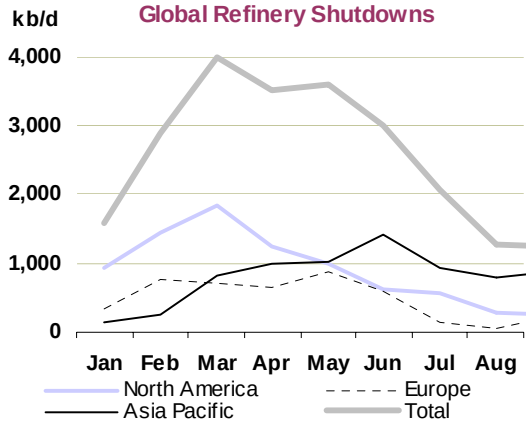


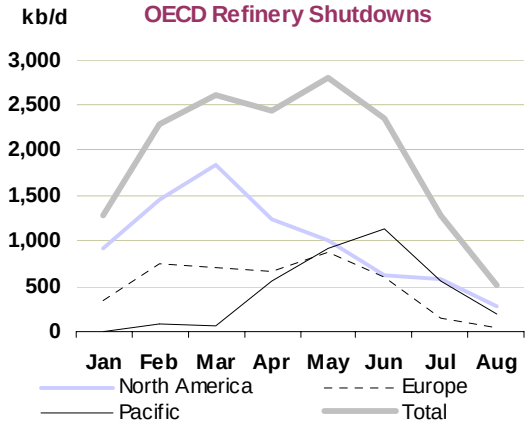
Weekly data from the Petroleum Association of Japan show that crude runs reached a trough in early June at 3.29 mb/d and have since recovered to 3.94 mb/d in late June. Our estimate for offline capacity in Japan suggests that monthly average crude runs should recover to around 4.1-4.2 mb/d in July, barring further unforeseen capacity outages.

Korean throughputs in May were 2.52 mb/d, an increase of 190 kb/d from levels of both a month and a year ago. This follows the completion of work at refineries operated by SK Corp and Caltex in April. Crude runs in June should dip again as more maintenance work is scheduled. However, the deferral of work at SK Corp.'s Ulsan refinery until late August would now suggest that June was the peak month for Korea's planned maintenance activity.

Offline Refinery Capacity

This Report's estimate of offline capacity for June in OECD refineries has again been increased following delays to the restart of refineries in Italy, the Netherlands and unplanned outages in the US. The peak in OECD offline capacity is unchanged at 2.8 mb/d in May. Estimated OECD offline capacity for June has risen by 472 kb/d to 2.4 mb/d. Further refinery outages in Europe (230 kb/d) and North America (130 kb/d) account for the majority of the increase.

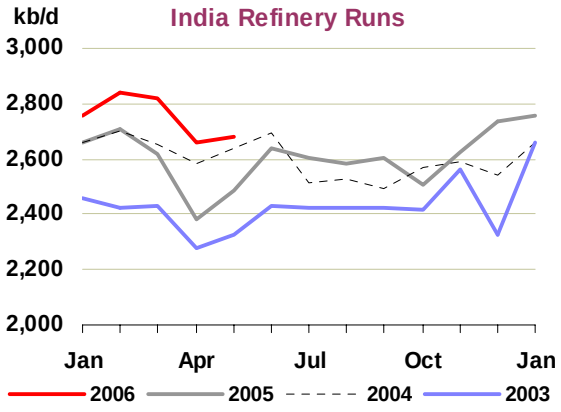


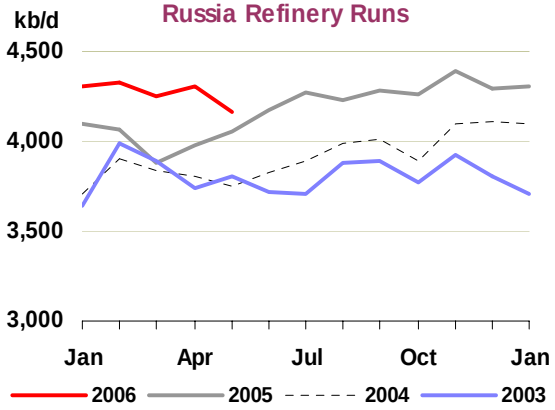


Global offline primary distillation capacity is still estimated to have peaked in March at roughly 4 mb/d. However, the recovery in runs continues to be more gradual than our initial forecasts suggested, as unplanned refinery outages in China, Saudi Arabia and Aruba increased our estimate of capacity offline both in June and July.

Non-OECD Throughputs

Indian crude throughputs dipped in April, to 2.66 mb/d, as expected due to higher refinery maintenance. Provisional data for May suggests a slight recovery in crude runs to 2.68 mb/d. The start-up of the Panipat refinery expansion should boost June throughputs, with an increasing impact over the course of the third quarter, by the end of which Essar's Vadinar refinery should have also begun.





Russian crude runs fell from a downward revised 4.3 mb/d in April to 4.16 mb/d in May. The decline in runs may reflect the change in tax rates on product exports, or alternatively capture the impact of unreported refinery maintenance.

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

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	24.5	25.4	25.6	25.3	25.5	25.4	25.5	25.1	25.4	25.9	26.0	25.6	25.9	25.8	26.1	26.2	26.0
Europe	15.4	15.5	15.6	15.1	15.5	15.6	15.5	15.7	14.9	15.5	15.7	15.5	15.5	15.1	15.5	15.7	15.4
Pacific	8.6	8.5	9.4	8.1	8.1	8.8	8.6	9.3	7.9	8.2	9.0	8.6	9.3	8.0	8.1	8.9	8.6
Total OECD	48.6	49.3	50.6	48.5	49.1	49.9	49.5	50.1	48.2	49.5	50.7	49.7	50.7	48.9	49.8	50.8	50.0
NON-OECD DEMAND																	
FSU	3.6	3.8	3.8	3.7	3.8	3.9	3.8	3.9	3.7	3.8	4.0	3.9	3.9	3.7	3.9	4.1	3.9
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	5.6	6.5	6.6	6.5	6.7	6.8	6.6	6.8	7.0	7.1	7.2	7.0	7.2	7.3	7.4	7.7	7.4
Other Asia	8.1	8.6	8.9	8.9	8.7	8.7	8.8	8.9	9.0	8.8	9.0	8.9	9.1	9.1	9.0	9.2	9.1
Latin America	4.7	5.0	5.0	5.1	5.2	5.1	5.1	5.1	5.2	5.3	5.2	5.2	5.2	5.3	5.4	5.4	5.3
Middle East	5.4	5.8	6.0	6.1	6.3	6.1	6.1	6.4	6.4	6.7	6.4	6.5	6.7	6.7	7.0	6.8	6.8
Africa	2.7	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0	3.1	3.1	2.9	3.1	3.0
Total Non-OECD	30.7	33.1	34.0	33.9	34.1	34.2	34.1	34.8	35.0	35.2	35.6	35.1	35.9	36.0	36.4	37.0	36.3
Total Demand[1]	79.3	82.5	84.6	82.4	83.2	84.1	83.6	84.9	83.3	84.7	86.3	84.8	86.7	84.9	86.1	87.7	86.4
OECD SUPPLY																	
North America	14.6	14.6	14.4	14.6	13.7	13.6	14.1	14.2	14.2	14.3	14.5	14.3	14.8	14.5	14.4	14.5	14.6
Europe	6.3	6.1	5.9	5.7	5.4	5.5	5.6	5.5	5.2	5.2	5.5	5.4	5.5	5.3	5.2	5.4	5.4
Pacific	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6
Total OECD	21.6	21.2	20.9	20.9	19.7	19.7	20.3	20.2	19.9	20.1	20.6	20.2	21.0	20.4	20.2	20.6	20.5
NON-OECD SUPPLY																	
FSU	10.3	11.2	11.5	11.5	11.7	11.9	11.6	11.7	12.0	12.2	12.4	12.1	12.4	12.5	12.7	12.8	12.6
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Other Asia	2.6	2.7	2.7	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.7
Latin America	4.0	4.1	4.2	4.4	4.3	4.3	4.3	4.3	4.4	4.5	4.6	4.5	4.6	4.6	4.7	4.9	4.7
Middle East	2.0	1.9	1.9	1.9	1.9	1.8	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	3.4	3.5	3.5	3.8	3.9	3.7	3.9	4.0	4.2	4.3	4.1	4.4	4.5	4.7	4.8	4.6
Total Non-OECD	25.6	27.0	27.5	27.6	28.1	28.4	27.9	28.4	28.8	29.3	29.7	29.0	29.8	30.0	30.5	30.9	30.3
Processing Gains[2]	1.8	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Other Biofuels[3]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Total Non-OPEC[4]	49.1	50.1	50.4	50.5	49.8	50.1	50.2	50.6	50.7	51.5	52.4	51.3	53.0	52.5	52.9	53.7	53.0
OPEC																	
Crude[5]	27.1	28.9	29.3	29.8	30.0	29.9	29.8	29.9	29.7								
NGLs	3.7	4.2	4.4	4.4	4.5	4.5	4.5	4.6	4.7	4.8	4.8	4.7	4.9	4.9	5.0	5.1	5.0
Total OPEC	30.8	33.1	33.7	34.2	34.5	34.5	34.2	34.5	34.3								
Total Supply[6]	79.8	83.2	84.0	84.7	84.3	84.5	84.4	85.1	85.1								
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.1	0.1	-0.1	0.9	0.2	-0.6	0.1	0.1									
Government	0.2	0.1	0.1	0.3	0.0	-0.1	0.1	0.0									
Total	0.3	0.2	0.1	1.2	0.2	-0.7	0.2	0.1									
Floating Storage/Oil in Transit	0.2	0.0	-0.4	0.1	0.0	0.1	-0.1	0.1									
Miscellaneous to balance[7]	0.1	0.4	-0.2	0.9	0.9	1.0	0.7	-0.1									
Total Stock Ch. & Misc	0.5	0.7	-0.6	2.3	1.1	0.4	0.8	0.2	1.8								
Memo items:																	
Call on OPEC crude + Stock ch.[8]	26.6	28.2	29.9	27.5	29.0	29.5	29.0	29.7	27.9	28.5	29.1	28.8	28.8	27.4	28.2	28.9	28.4
Total Demand ex. FSU	75.7	78.7	80.8	78.7	79.5	80.2	79.8	81.0	79.6	80.9	82.3	80.9	82.8	81.2	82.3	83.7	82.5
Total demand exc. FSU (% ch)[9]	1.9	4.0	2.3	1.6	1.5	0.1	1.3	0.3	1.1	1.8	2.6	1.4	2.1	2.1	1.7	1.7	1.9

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 Biofuels from sources outside Brazil and US.
4 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
5 As of the March 2006 OMR, Venezuelan Orinoco heavy crude production is included within Venezuelan crude estimates. Orimulsion fuel remains within the OPEC NGL & non-conventional category.
6 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
7 Includes changes in non-reported stocks in OECD and non-OECD areas
8 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
9 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)

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-0.1	-	-	-					
Europe	-	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1					
Pacific	-0.1	-	-	-	-	-	-	-	-0.1	-	-	-0.1					
Total OECD	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	-0.4	-0.1	-0.1	-0.2					
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-					
Europe	-	-	-	-	-	-	-	-	-	-	-	-					
China	-	-	-	0.1	-	-	-	0.1	0.1	0.1	-	0.1					
Other Asia	-	-	-	-	-	-	-	-	0.1	-	-	-					
Latin America	-	-	-	-	-	-	-	-	-	-	-	-					
Middle East	-	-	-	-	-	-	-	-	-	-	-	-					
Africa	-	-	-	-	-	-	-	-	-	-	-	-					
Total Non-OECD	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1					
Total Demand	-	-0.1	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-	-0.1	-0.1					
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	0.1	-					
Europe	-	-	-	-	-	-	-	-	-	-	-	-					
Pacific	-	-	-	-	-	-	-	-	-	-	-	-					
Total OECD	-	-	-	-	-	-	-	-	-0.1	-	0.1	-					
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-					
Europe	-	-	-	-	-	-	-	-	-	-	-	-					
China	-	-	-	-	-	-	-	-	-	-	-	-					
Other Asia	-0.1	-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	-	-	-	-	-	-	-	-	-	-	-0.1	-					
Total Non-OECD	-0.1	-0.1	-	-	-	-	-	-	-0.1	-	-0.1	-0.1					
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-					
Other Biofuels	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2					
Total Non-OPEC	-	-	-	-	-	-	-	0.1	-	0.1	0.1	0.1					
OPEC																	
Crude	-	-	-	-	-	-	-	-									
NGLs	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3					
Total OPEC	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3									
Total Supply	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3									
STOCK CHANGES AND MISCELLANEOUS REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-0.1									
Government	-	-	-	-	-	-	-	-									
Total	-	-	-	-	-	-	-	-0.1									
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-									
Miscellaneous to balance	0.2	0.3	0.4	0.3	0.4	0.4	0.4	0.5									
Total Stock Ch. & Misc	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4									
Memo items:																	
Call on OPEC crude + Stock ch.	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.4	-0.5	-0.5					
Total Demand ex. FSU	-	-0.1	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-	-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

	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)																
North America	25.37	25.57	25.34	25.50	25.43	25.46	25.13	25.40	25.89	26.05	25.62	25.93	25.78	26.15	26.16	26.01
Europe	15.48	15.58	15.14	15.55	15.64	15.48	15.73	14.92	15.45	15.70	15.45	15.48	15.11	15.50	15.67	15.44
Pacific	8.49	9.45	8.06	8.07	8.79	8.59	9.29	7.91	8.20	8.95	8.59	9.33	7.99	8.14	8.93	8.60
Total OECD	49.35	50.59	48.54	49.13	49.86	49.53	50.15	48.23	49.55	50.70	49.66	50.74	48.88	49.79	50.76	50.04
FSU	3.76	3.82	3.71	3.79	3.89	3.80	3.87	3.67	3.84	4.03	3.85	3.92	3.67	3.87	4.07	3.88
Europe	0.70	0.77	0.72	0.66	0.72	0.72	0.79	0.73	0.67	0.73	0.73	0.80	0.74	0.69	0.74	0.74
China	6.45	6.58	6.46	6.65	6.79	6.62	6.77	7.03	7.05	7.25	7.03	7.15	7.35	7.43	7.73	7.42
Other Asia	8.64	8.92	8.88	8.67	8.74	8.80	8.90	9.00	8.75	8.96	8.90	9.14	9.14	9.01	9.25	9.14
Latin America	4.97	4.97	5.13	5.19	5.11	5.10	5.08	5.21	5.30	5.23	5.21	5.16	5.33	5.40	5.37	5.32
Middle East	5.81	6.05	6.07	6.35	6.07	6.14	6.38	6.40	6.67	6.41	6.47	6.72	6.75	7.02	6.76	6.81
Africa	2.80	2.91	2.92	2.80	2.91	2.88	2.97	2.99	2.86	2.98	2.95	3.05	3.05	2.93	3.05	3.02
Total Non-OECD	33.14	34.02	33.89	34.11	34.24	34.07	34.77	35.03	35.16	35.60	35.14	35.94	36.03	36.36	36.97	36.33
World	82.48	84.61	82.44	83.24	84.09	83.59	84.92	83.26	84.70	86.30	84.80	86.67	84.91	86.14	87.73	86.37
of which:																
US50	*20.73*	*20.80*	*20.66*	*20.86*	*20.75*	*20.77*	*20.48*	*20.84*	*21.14*	*21.22*	*20.92*	*21.13*	*21.07*	*21.36*	*21.33*	*21.22*
Euro4	*8.27*	*8.25*	*7.94*	*8.24*	*8.19*	*8.15*	*8.37*	*7.87*	*8.12*	*8.19*	*8.14*	*8.15*	*7.89*	*8.15*	*8.15*	*8.08*
Japan	*5.29*	*6.00*	*4.94*	*5.03*	*5.46*	*5.35*	*5.96*	*4.81*	*5.07*	*5.53*	*5.34*	*5.89*	*4.82*	*4.99*	*5.51*	*5.30*
Korea	*2.16*	*2.40*	*2.07*	*2.01*	*2.23*	*2.18*	*2.28*	*2.03*	*2.06*	*2.32*	*2.17*	*2.36*	*2.08*	*2.06*	*2.31*	*2.20*
Mexico	*2.00*	*2.04*	*2.11*	*2.06*	*2.10*	*2.08*	*2.08*	*2.04*	*2.13*	*2.16*	*2.10*	*2.12*	*2.15*	*2.17*	*2.15*	*2.15*
Canada	*2.30*	*2.36*	*2.24*	*2.24*	*2.23*	*2.27*	*2.19*	*2.19*	*2.27*	*2.30*	*2.24*	*2.29*	*2.22*	*2.27*	*2.31*	*2.27*
Brazil	*2.15*	*2.12*	*2.18*	*2.25*	*2.21*	*2.19*	*2.17*	*2.19*	*2.30*	*2.26*	*2.23*	*2.21*	*2.27*	*2.32*	*2.34*	*2.28*
India	*2.58*	*2.73*	*2.60*	*2.48*	*2.57*	*2.59*	*2.74*	*2.75*	*2.53*	*2.65*	*2.67*	*2.84*	*2.75*	*2.62*	*2.75*	*2.74*
Annual Change (% per annum)																
North America	3.5	1.2	1.1	0.2	-1.1	0.3	-1.7	0.2	1.5	2.4	0.6	3.2	1.5	1.0	0.4	1.5
Europe	0.3	0.4	0.6	0.5	-1.6	0.0	0.9	-1.5	-0.6	0.4	-0.2	-1.6	1.2	0.3	-0.2	-0.1
Pacific	-1.6	2.3	2.3	-0.5	0.6	1.2	-1.6	-1.9	1.6	1.9	0.0	0.4	1.0	-0.8	-0.2	0.1
Total OECD	1.5	1.2	1.1	0.2	-1.0	0.4	-0.9	-0.6	0.8	1.7	0.3	1.2	1.3	0.5	0.1	0.8
FSU	4.7	8.7	-0.2	0.0	-2.7	1.3	1.4	-1.1	1.3	3.5	1.3	1.2	0.0	0.8	1.0	0.8
Europe	2.6	2.1	2.1	1.7	1.6	1.9	2.5	1.4	1.6	1.6	1.8	0.7	1.7	1.7	1.4	1.4
China	15.8	4.5	-1.3	5.0	2.5	2.6	2.9	8.8	6.1	6.8	6.1	5.6	4.4	5.4	6.7	5.5
Other Asia	7.1	4.3	2.4	2.5	-1.6	1.8	-0.2	1.4	0.9	2.5	1.2	2.6	1.6	3.0	3.2	2.6
Latin America	6.0	3.1	3.0	2.4	2.1	2.7	2.2	1.5	2.1	2.3	2.0	1.6	2.5	1.8	2.6	2.1
Middle East	7.2	5.8	5.8	5.3	5.4	5.6	5.5	5.4	5.1	5.6	5.4	5.3	5.4	5.3	5.3	5.3
Africa	4.4	3.3	3.3	2.5	2.7	3.0	2.4	2.3	2.4	2.4	2.4	2.6	2.0	2.3	2.4	2.4
Total Non-OECD	7.9	4.8	2.1	3.2	1.2	2.8	2.2	3.4	3.1	4.0	3.2	3.4	2.9	3.4	3.9	3.4
World	4.0	2.6	1.5	1.4	-0.1	1.3	0.4	1.0	1.8	2.6	1.4	2.1	2.0	1.7	1.7	1.8
Annual Change (mb/d)																
North America	0.85	0.31	0.27	0.06	-0.28	0.09	-0.44	0.06	0.39	0.61	0.16	0.80	0.38	0.26	0.11	0.39
Europe	0.05	0.07	0.09	0.08	-0.26	-0.01	0.15	-0.22	-0.10	0.07	-0.03	-0.25	0.18	0.05	-0.04	-0.01
Pacific	-0.14	0.21	0.18	-0.04	0.06	0.10	-0.15	-0.15	0.13	0.16	0.00	0.04	0.08	-0.07	-0.02	0.01
Total OECD	0.75	0.59	0.54	0.10	-0.48	0.18	-0.44	-0.31	0.42	0.85	0.13	0.59	0.65	0.24	0.06	0.38
FSU	0.17	0.31	-0.01	0.00	-0.11	0.05	0.05	-0.04	0.05	0.14	0.05	0.05	0.00	0.03	0.04	0.03
Europe	0.02	0.02	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
China	0.88	0.28	-0.09	0.31	0.16	0.17	0.19	0.57	0.40	0.46	0.41	0.38	0.31	0.38	0.49	0.39
Other Asia	0.57	0.37	0.20	0.21	-0.14	0.16	-0.02	0.12	0.08	0.22	0.10	0.24	0.14	0.26	0.28	0.23
Latin America	0.28	0.15	0.15	0.12	0.11	0.13	0.11	0.08	0.11	0.12	0.10	0.08	0.13	0.09	0.14	0.11
Middle East	0.39	0.33	0.34	0.32	0.31	0.32	0.33	0.33	0.33	0.34	0.33	0.34	0.34	0.35	0.34	0.34
Africa	0.12	0.09	0.09	0.07	0.08	0.08	0.07	0.07	0.07	0.07	0.07	0.08	0.06	0.07	0.07	0.07
Total Non-OECD	2.43	1.55	0.70	1.05	0.42	0.93	0.75	1.14	1.05	1.36	1.08	1.17	1.00	1.20	1.37	1.19
World	3.18	2.13	1.24	1.15	-0.06	1.11	0.31	0.82	1.46	2.21	1.21	1.75	1.65	1.44	1.43	1.57
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	0.04	0.04	0.04	0.04	0.04	0.04	0.03	-0.10	0.03	0.04	-	-	-	-	-	-
Europe	-0.14	-0.08	-0.14	-0.13	-0.16	-0.13	-0.16	-0.18	-0.12	-0.13	-0.15	-	-	-	-	-
Pacific	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04	-0.14	-0.01	-0.02	-0.05	-	-	-	-	-
Total OECD	-0.14	-0.08	-0.15	-0.14	-0.16	-0.13	-0.18	-0.41	-0.10	-0.12	-0.20	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-0.01	0.02	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	0.02	0.03	0.06	0.02	0.02	0.03	0.06	0.07	0.08	0.05	0.06	-	-	-	-	-
Other Asia	-0.01	-0.01	0.00	-0.01	-0.01	-0.01	-	0.07	-	-0.01	0.01	-	-	-	-	-
Latin America	0.02	0.02	0.02	0.02	0.02	0.02	0.02	-0.02	0.01	0.01	0.01	-	-	-	-	-
Middle East	-	-	-	0.01	-	-	-	-	0.01	-	-	-	-	-	-	-
Africa	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	-	-	-	-	-
Total Non-OECD	0.05	0.06	0.09	0.06	0.05	0.06	0.10	0.13	0.13	0.06	0.10	-	-	-	-	-
World	-0.09	-0.02	-0.06	-0.08	-0.11	-0.07	-0.08	-0.28	0.03	-0.06	-0.10	-	-	-	-	-
Revisions to Oil Demand Growth from Last Month's Report (mb/d)																
World	-0.06	0.10	0.02	0.01	-0.03	0.02	-0.07	-0.22	0.11	0.05	-0.03	-	-	-	-	-

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2005	2006	2007	1Q06	2Q06	3Q06	4Q06	1Q07	Apr 06	May 06	Jun 06
OPEC											
Crude Oil											
Saudi Arabia	9.06			9.27	9.01				8.96	9.01	9.06
Iran	3.88			3.84	3.71				3.69	3.70	3.75
Iraq	1.81			1.71	1.99				2.00	1.92	2.08
UAE	2.46			2.60	2.61				2.67	2.60	2.56
Kuwait	2.13			2.22	2.22				2.22	2.22	2.22
Neutral Zone	0.58			0.59	0.58				0.58	0.58	0.58
Qatar	0.80			0.82	0.83				0.83	0.83	0.83
Nigeria	2.40			2.23	2.19				2.09	2.20	2.29
Libya	1.64			1.67	1.70				1.70	1.70	1.70
Algeria	1.34			1.36	1.34				1.36	1.34	1.33
Venezuela	2.71			2.63	2.58				2.63	2.60	2.51
Indonesia	0.94			0.92	0.91				0.92	0.92	0.90
Total Crude Oil	29.76			29.87	29.68				29.63	29.60	29.80
Total NGLs[1]	4.46	4.72	5.00	4.62	4.66	4.76	4.83	4.91	4.63	4.67	4.68
Total OPEC	34.23			34.48	34.34				34.26	34.27	34.48
NON-OPEC[2]											
OECD											
North America	14.09	14.30	14.56	14.18	14.16	14.34	14.52	14.79	14.33	14.01	14.14
United States	7.27	7.36	7.56	7.19	7.33	7.48	7.44	7.69	7.28	7.30	7.39
Mexico	3.76	3.72	3.63	3.78	3.77	3.69	3.62	3.63	3.81	3.77	3.74
Canada	3.06	3.23	3.36	3.20	3.06	3.17	3.47	3.47	3.24	2.94	3.01
Europe	5.61	5.38	5.36	5.54	5.24	5.23	5.52	5.54	5.25	5.33	5.15
UK	1.83	1.75	1.75	1.84	1.72	1.63	1.80	1.87	1.79	1.71	1.67
Norway	2.97	2.87	2.86	2.93	2.75	2.83	2.96	2.91	2.68	2.85	2.71
Others	0.80	0.77	0.75	0.77	0.77	0.77	0.76	0.76	0.78	0.77	0.77
Pacific	0.58	0.54	0.62	0.49	0.49	0.55	0.61	0.62	0.51	0.47	0.49
Australia	0.54	0.49	0.58	0.45	0.45	0.51	0.57	0.58	0.46	0.43	0.45
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	20.28	20.22	20.54	20.21	19.89	20.12	20.65	20.95	20.09	19.81	19.78
NON-OECD											
Former USSR	11.64	12.09	12.61	11.72	12.04	12.22	12.37	12.42	12.02	12.03	12.08
Russia	9.48	9.73	10.00	9.53	9.68	9.81	9.91	9.90	9.66	9.66	9.73
Others	2.16	2.36	2.61	2.19	2.36	2.42	2.46	2.51	2.37	2.37	2.35
Asia	6.28	6.43	6.48	6.40	6.41	6.44	6.46	6.47	6.35	6.42	6.45
China	3.62	3.70	3.73	3.68	3.69	3.72	3.73	3.74	3.68	3.67	3.70
Malaysia	0.77	0.75	0.75	0.77	0.75	0.74	0.73	0.74	0.73	0.76	0.75
India	0.77	0.81	0.83	0.77	0.80	0.82	0.83	0.83	0.77	0.82	0.82
Others	1.13	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.18
Europe	0.16	0.15	0.13	0.15	0.15	0.14	0.14	0.14	0.15	0.15	0.15
Latin America	4.30	4.47	4.72	4.35	4.40	4.50	4.64	4.65	4.38	4.41	4.42
Brazil	1.99	2.18	2.43	2.07	2.10	2.20	2.34	2.35	2.09	2.10	2.11
Argentina	0.78	0.75	0.73	0.76	0.76	0.75	0.74	0.74	0.77	0.77	0.76
Colombia	0.53	0.53	0.53	0.53	0.53	0.53	0.54	0.54	0.53	0.53	0.53
Ecuador	0.53	0.55	0.56	0.52	0.55	0.55	0.56	0.56	0.55	0.55	0.55
Others	0.47	0.46	0.46	0.47	0.46	0.46	0.46	0.47	0.45	0.46	0.47
Middle East[3]	1.86	1.80	1.75	1.81	1.81	1.80	1.79	1.77	1.83	1.81	1.80
Oman	0.79	0.75	0.72	0.76	0.76	0.75	0.74	0.73	0.78	0.75	0.75
Syria	0.46	0.43	0.41	0.44	0.43	0.43	0.42	0.42	0.44	0.43	0.43
Yemen	0.42	0.42	0.42	0.41	0.42	0.43	0.43	0.43	0.42	0.42	0.42
Africa	3.67	4.10	4.60	3.93	3.99	4.21	4.28	4.37	4.07	3.93	3.97
Egypt	0.70	0.69	0.68	0.69	0.70	0.69	0.69	0.69	0.70	0.69	0.69
Angola	1.25	1.43	1.75	1.42	1.33	1.48	1.49	1.56	1.43	1.28	1.29
Gabon	0.23	0.23	0.23	0.24	0.24	0.23	0.23	0.23	0.24	0.24	0.24
Others	1.50	1.74	1.94	1.58	1.72	1.81	1.86	1.89	1.70	1.71	1.75
Total Non-OECD	27.92	29.04	30.29	28.36	28.80	29.32	29.67	29.82	28.79	28.73	28.87
Processing Gains[4]	1.86	1.90	1.92	1.92	1.89	1.88	1.92	1.92	1.92	1.88	1.88
Other Biofuels[5]	0.12	0.15	0.26	0.15	0.15	0.15	0.15	0.26	0.15	0.15	0.15
TOTAL NON-OPEC	50.17	51.31	53.01	50.64	50.73	51.48	52.40	52.95	50.95	50.57	50.67
TOTAL SUPPLY	84.40			85.12	85.07				85.21	84.84	85.16

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Venezuelan Orimulsion (but not Orinoco 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

5 Comprises Fuel Ethanol and Biodiesel supply from outside Brazil and US.

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			
	Jan2006	Feb2006	Mar2006	Apr2006	May2006*	May2003	May2004	May2005	2Q2005	3Q2005	4Q2005	1Q2006
North America												
Crude	449.3	469.5	465.5	476.9	473.4	396.3	424.0	449.4	0.16	-0.15	0.25	0.10
Motor Gasoline	254.8	257.1	242.1	237.2	243.1	239.5	235.0	245.4	0.00	-0.19	0.08	0.08
Middle Distillate	222.2	212.9	194.4	190.4	196.4	177.4	174.6	181.6	0.17	0.08	0.16	-0.21
Residual Fuel Oil	51.0	53.2	50.6	49.7	48.9	44.9	44.5	46.9	-0.03	-0.04	0.03	0.07
Total Products[3]	689.6	676.5	636.3	637.4	660.5	624.9	615.3	666.1	0.57	-0.16	-0.06	-0.24
Total[4]	1277.7	1281.6	1241.0	1255.8	1273.5	1160.7	1177.1	1260.5	0.85	-0.19	-0.02	-0.16
Europe												
Crude	333.3	340.3	346.6	339.7	345.7	330.6	335.9	355.8	-0.06	0.01	-0.13	0.23
Motor Gasoline	119.9	120.0	112.0	106.7	105.8	115.3	114.5	114.4	-0.19	0.02	0.08	-0.01
Middle Distillate	267.7	261.5	248.0	261.3	260.0	230.9	232.3	257.7	-0.03	0.18	-0.03	-0.09
Residual Fuel Oil	74.8	71.5	69.7	75.7	74.5	69.4	74.9	78.0	0.04	0.05	-0.02	-0.04
Total Products[3]	564.8	555.0	531.2	546.0	542.9	521.0	521.8	551.5	-0.22	0.24	0.04	-0.16
Total[4]	970.3	971.4	954.2	960.0	962.0	919.3	928.8	982.2	-0.31	0.31	-0.14	0.12
Pacific												
Crude	155.6	157.3	170.7	171.4	183.1	172.3	179.1	171.9	0.08	-0.09	-0.12	0.15
Motor Gasoline	24.8	25.4	25.0	25.5	25.9	25.5	24.7	25.7	-0.01	-0.02	0.00	0.03
Middle Distillate	62.6	64.0	61.2	58.7	67.6	69.8	56.1	62.5	0.11	0.21	-0.18	0.00
Residual Fuel Oil	21.3	21.1	19.2	22.4	25.0	24.9	24.1	24.7	0.02	0.01	-0.04	-0.01
Total Products[3]	168.9	172.6	169.4	172.0	182.6	183.7	166.8	178.1	0.20	0.20	-0.26	0.02
Total[4]	392.3	396.3	409.8	414.7	437.2	428.5	416.7	422.8	0.36	0.11	-0.42	0.18
Total OECD												
Crude	938.1	967.1	982.8	987.9	1002.2	899.2	938.9	977.2	0.18	-0.22	0.00	0.47
Motor Gasoline	399.4	402.5	379.1	369.4	374.8	380.4	374.1	385.5	-0.19	-0.19	0.16	0.10
Middle Distillate	552.5	538.4	503.6	510.4	524.0	478.1	463.0	501.7	0.26	0.47	-0.06	-0.30
Residual Fuel Oil	147.1	145.9	139.5	147.8	148.4	139.2	143.4	149.6	0.03	0.01	-0.03	0.01
Total Products[3]	1423.3	1404.1	1336.8	1355.4	1386.0	1329.6	1303.8	1395.7	0.54	0.29	-0.28	-0.37
Total[4]	2640.2	2649.3	2605.0	2630.5	2672.7	2508.5	2522.6	2665.5	0.89	0.23	-0.58	0.14

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			
	Jan2006	Feb2006	Mar2006	Apr2006	May2006*	May2003	May2004	May2005	2Q2005	3Q2005	4Q2005	1Q2006
North America												
Crude	683.5	684.8	686.1	687.9	688.7	603.1	661.3	693.9	0.09	-0.03	-0.10	0.02
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	169.5	170.2	170.2	171.0	171.0	153.6	157.6	164.4	0.01	0.02	0.00	0.04
Products	235.9	235.2	235.9	233.5	233.5	204.1	208.5	210.4	0.26	0.02	0.02	-0.03
Pacific												
Crude	380.0	380.0	380.4	380.5	380.5	383.0	386.9	384.5	-0.01	-0.01	-0.01	-0.01
Products	11.6	11.3	11.4	11.4	11.7	9.6	11.0	11.0	0.00	0.00	0.00	0.00
Total OECD												
Crude	1233.0	1234.9	1236.7	1239.3	1240.1	1139.7	1205.8	1242.8	0.09	-0.02	-0.11	0.04
Products	249.5	248.5	249.3	246.9	247.2	215.7	221.5	223.5	0.26	0.02	0.02	-0.04
Total[4]	1483.4	1484.5	1487.0	1487.2	1488.3	1356.4	1428.3	1467.3	0.35	0.00	-0.08	0.01

* 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 2005		End June 2005		End September 2005		End December 2005		End March 2006 [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	162.6	73	164.7	73	170.5	77	178.1	81	171.5	-
Mexico	44.2	21	45.6	22	52.8	25	43.9	21	41.7	-
United States[4]	1658.8	81	1740.5	84	1707.4	82	1697.9	83	1693.7	-
Total[4]	1887.7	75	1972.9	78	1952.9	77	1942.0	78	1929.1	76
Pacific										
Australia	34.8	38	35.7	40	34.1	37	32.7	36	35.5	-
Japan	604.9	123	629.4	125	637.9	117	612.1	103	620.1	-
Korea	137.4	67	142.5	71	145.4	65	134.9	59	137.4	-
New Zealand	7.9	52	9.0	62	7.9	48	7.2	47	8.6	-
Total	785.0	97	816.6	101	825.3	94	786.8	85	801.6	101
Europe[5]										
Austria	20.6	69	20.2	66	19.9	66	19.0	68	18.7	-
Belgium	26.9	51	27.8	57	30.3	51	28.6	47	31.0	-
Czech Republic	17.0	78	15.9	70	16.7	79	18.8	99	19.6	-
Denmark	16.3	89	17.2	96	20.5	111	20.3	102	19.5	-
Finland	26.2	124	27.0	122	27.3	123	25.1	113	26.7	-
France	187.4	97	185.6	93	191.4	97	195.6	93	196.2	-
Germany	280.2	110	279.5	102	275.8	105	282.6	111	279.9	-
Greece	35.7	98	32.6	85	34.6	75	33.1	69	36.5	-
Hungary	19.6	131	17.0	105	17.1	104	17.6	120	20.8	-
Ireland	10.6	58	11.6	63	13.2	65	11.6	55	13.3	-
Italy	133.7	79	132.1	78	137.0	77	132.0	71	131.5	-
Luxembourg	0.9	13	0.8	13	0.8	12	0.8	11	0.9	-
Netherlands	109.4	103	116.6	114	115.7	115	116.4	116	120.5	-
Norway	29.2	145	21.0	98	30.2	108	30.7	123	21.9	-
Poland	33.9	77	34.5	70	33.8	69	35.2	77	35.5	-
Portugal	25.6	78	26.5	78	26.8	82	25.7	78	24.7	-
Slovak Republic	7.0	97	6.5	83	6.4	81	6.4	78	8.3	-
Spain	126.7	80	129.4	82	131.7	84	128.6	79	130.2	-
Sweden	32.0	89	35.4	100	34.6	95	38.0	102	38.4	-
Switzerland	37.1	146	38.0	134	38.9	137	37.7	128	37.7	-
Turkey	55.4	79	52.2	76	50.8	81	51.2	100	51.6	-
United Kingdom	102.2	58	102.3	57	108.7	60	95.6	52	97.8	-
Total	1333.5	88	1329.7	86	1362.1	87	1350.4	86	1361.3	91
Total OECD	4006.1	83	4119.2	84	4140.2	83	4079.2	82	4091.9	85
DAYS OF IEA Net Imports[6]	-	113	-	116	-	116	-	114	-	115

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 2006 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]*		
1Q2003	3791	1362	2430	80	29	51
2Q2003	3916	1365	2551	81	28	53
3Q2003	3983	1383	2600	80	28	53
4Q2003	3928	1411	2517	79	28	50
1Q2004	3888	1423	2465	81	30	51
2Q2004	3974	1429	2545	81	29	52
3Q2004	4016	1435	2581	80	29	51
4Q2004	4000	1450	2550	79	29	51
1Q2005	4006	1462	2544	83	30	53
2Q2005	4119	1494	2625	84	30	54
3Q2005	4140	1494	2646	83	30	53
4Q2005	4079	1487	2593	82	30	52
1Q2006	4092	1487	2605	85	31	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 1Q2006 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	Feb 06	Mar 06	Apr 06	Year Earlier Apr 05	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.55	0.46	0.45	0.41	0.52	0.51	0.58	0.55	0.65	0.42	0.22
Europe	1.00	1.03	0.90	0.88	0.92	0.91	0.83	0.87	0.81	0.62	0.83	-0.20
Pacific	1.18	1.24	1.31	1.22	1.25	1.37	1.40	1.38	1.47	1.53	1.17	0.36
Saudi Medium												
North America	0.83	0.80	0.81	0.89	0.58	0.81	0.65	0.68	0.66	0.74	0.92	-0.18
Europe	0.11	0.11	0.16	0.13	0.20	0.16	0.17	0.14	0.16	0.12	0.13	-0.01
Pacific	0.24	0.23	0.26	0.24	0.27	0.32	0.38	0.43	0.37	0.37	0.26	0.11
Saudi Heavy												
North America	0.30	0.22	0.17	0.15	0.20	0.16	0.21	0.22	0.20	0.21	0.11	0.11
Europe	0.19	0.23	0.23	0.20	0.27	0.26	0.14	0.16	0.16	0.24	0.18	0.07
Pacific	0.16	0.15	0.25	0.20	0.26	0.29	0.25	0.32	0.22	0.21	0.19	0.02
Iraqi Basrah Light[2]												
North America	0.44	0.71	0.60	0.69	0.56	0.59	0.44	0.38	0.48	0.51	0.66	-0.14
Europe	0.09	0.21	0.23	0.19	0.24	0.31	0.24	0.19	0.23	0.31	0.22	0.09
Pacific	0.03	0.12	0.06	0.06	0.06	0.06	0.08	0.04	0.12	0.12	0.13	-0.01
Iraqi Kirkuk												
North America	0.06	0.02	..	..	..	..	..	..	..	..	..	..
Europe	0.12	0.08	0.05	0.04	0.13	0.03	..	..	..	..	0.02	..
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.19	0.24	0.20	0.18	0.16	0.22	0.20	0.23	0.26	0.23	0.22	0.01
Pacific	0.17	0.16	0.15	0.13	0.14	0.15	0.19	0.21	0.20	0.13	0.10	0.03
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.59	0.57	0.63	0.63	0.71	0.57	0.48	0.54	0.39	0.31	0.64	-0.32
Pacific	0.69	0.65	0.62	0.59	0.52	0.63	0.64	0.73	0.69	0.56	0.67	-0.11
Venezuelan Light & Medium												
North America	0.69	0.67	0.82	0.88	0.79	0.81	0.75	0.79	0.76	0.54	0.88	-0.34
Europe	0.02	0.01	0.04	0.03	0.06	0.07	0.12	0.06	0.17	0.14	0.02	0.12
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.60	0.88	0.72	0.82	0.66	0.56	0.70	0.69	0.63	0.67	0.95	-0.29
Europe	0.06	0.05	0.06	0.06	0.08	0.06	0.08	0.06	0.08	0.04	0.06	-0.02
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	1.32	1.36	1.27	1.36	1.17	1.25	1.26	1.23	1.32	1.24	1.29	-0.05
Europe	0.16	0.16	0.17	0.17	0.16	0.18	0.13	0.13	0.13	0.20	0.12	0.08
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.00	..	0.03	0.00	0.02	0.10	0.09	0.10	0.10	..	..	..
Europe	0.00	0.01	0.03	0.01	0.02	0.05	0.01	..	0.00	0.00	..	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.14	0.12	0.13	0.14	0.16	0.09	..	..	..	0.04	0.34	-0.30
Europe	1.62	1.86	1.77	1.93	1.76	1.69	1.68	1.54	1.85	1.63	1.97	-0.34
Pacific	0.00	0.01	0.00	0.00	0.01	..	..	..	..	..	0.00	..
Nigerian Light[4]												
North America	0.63	0.80	0.90	0.88	0.94	0.90	0.87	1.00	0.77	0.95	0.86	0.09
Europe	0.41	0.28	0.35	0.27	0.41	0.41	0.28	0.36	0.26	0.29	0.24	0.05
Pacific	0.08	0.11	0.05	0.06	0.07	0.02	0.09	0.10	0.03	0.02	0.06	-0.04
Nigerian Medium												
North America	0.17	0.23	0.17	0.22	0.13	0.15	0.19	0.22	0.16	0.12	0.22	-0.10
Europe	0.06	0.04	0.07	0.04	0.08	0.07	0.08	0.10	0.07	0.05	0.00	0.05
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)

	2003	2004	2005	2Q2005	3Q2005	4Q2005	1Q2006	Feb-06	Mar-06	Apr-06	Year Earlier Apr-05	Year Earlier % change
Crude Oil												
North America	8069	8431	8384	8614	8251	8101	7729	7816	7786	7791	8616	-11%
Europe	9096	9477	9806	9506	10082	9937	9399	9329	9102	9351	9455	-1%
Pacific	6711	6659	6801	6434	6643	6967	7387	7341	7567	6734	6297	6%
Total OECD	23876	24568	24992	24555	24975	25005	24515	24485	24454	23875	24368	-2%
LPG												
North America	27	24	18	3	18	30	8	12	7	5	7	-42%
Europe	193	225	231	163	218	231	280	224	298	251	194	23%
Pacific	541	541	527	591	500	486	651	725	642	602	619	-3%
Total OECD	760	790	776	757	735	746	938	961	947	858	820	4%
Naphtha												
North America	67	99	110	89	151	76	41	16	32	32	81	-156%
Europe	305	282	281	251	297	287	345	394	309	147	216	-47%
Pacific	770	769	746	759	693	760	692	746	634	736	791	-7%
Total OECD	1142	1150	1137	1100	1142	1123	1077	1156	975	915	1088	-19%
Gasoline[3]												
North America	669	794	1016	1020	1046	1148	1120	1151	1139	1247	946	24%
Europe	150	137	172	160	208	122	197	222	147	12	159	-1272%
Pacific	70	105	102	130	93	90	78	69	81	101	109	-8%
Total OECD	888	1035	1291	1310	1346	1360	1394	1442	1367	1360	1215	11%
Jet & Kerosene												
North America	97	101	130	43	139	268	80	18	98	207	35	83%
Europe	271	293	375	364	449	371	320	279	326	383	350	9%
Pacific	102	77	66	72	48	49	132	179	83	35	77	-120%
Total OECD	470	471	571	479	636	688	532	476	506	625	463	26%
Gasoil/Diesel												
North America	126	123	142	92	99	267	210	164	110	102	77	25%
Europe	652	751	857	766	811	868	1090	1130	1090	1051	816	22%
Pacific	73	74	79	94	79	83	77	97	61	70	95	-37%
Total OECD	850	947	1078	952	988	1218	1377	1390	1261	1223	988	19%
Heavy Fuel Oil												
North America	326	453	525	433	566	610	481	499	340	260	432	-66%
Europe	398	405	491	549	526	470	525	595	516	464	648	-40%
Pacific	88	76	85	82	90	82	123	127	120	98	83	16%
Total OECD	812	935	1101	1065	1182	1163	1129	1221	976	822	1163	-41%
Other Products												
North America	680	872	1005	1064	1166	1049	972	1051	751	1153	845	27%
Europe	690	676	795	828	807	798	884	827	920	893	819	8%
Pacific	235	256	247	248	225	263	284	262	304	289	309	-7%
Total OECD	1605	1805	2047	2140	2197	2110	2140	2140	1975	2336	1973	16%
Total Products												
North America	1991	2466	2947	2745	3185	3447	2911	2909	2477	3005	2423	19%
Europe	2657	2767	3202	3083	3314	3147	3640	3672	3606	3202	3202	0%
Pacific	1879	1898	1852	1975	1728	1812	2036	2205	1925	1932	2084	-8%
Total OECD	6527	7132	8001	7802	8227	8407	8587	8786	8008	8140	7710	5%
Total Oil												
North America	10061	10897	11332	11359	11436	11548	10640	10725	10262	10796	11040	-2%
Europe	11753	12245	13009	12589	13396	13084	13039	13001	12707	12552	12657	-1%
Pacific	8590	8558	8653	8409	8370	8779	9423	9546	9492	8666	8382	3%
Total OECD	30403	31699	32993	32357	33202	33412	33102	33271	32462	32014	32078	0%

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

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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 (©2006 Platt's - a division of McGraw-Hill Inc.).

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OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

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INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

11 August 2006

HIGHLIGHTS

- **Dated Brent reached a record high** of $78.69/bbl on 8 August, after BP shut down the Prudhoe Bay field in Alaska to repair pipeline infrastructure. Pipeline problems also increased Nigerian outages to around 750 kb/d, with prices further supported by ongoing geopolitical concerns in the Middle East.

- **World oil supply** gained 615 kb/d in July to reach 85.5 mb/d. Revisions driven by an unscheduled shutdown of Alaska's 400 kb/d Prudhoe Bay field trim non-OPEC supply by 220 kb/d in 2006 and 30 kb/d in 2007. Non-OPEC output averages 51.1 mb/d in 2006 and 53.0 mb/d in 2007.

- **OPEC crude supply** in July fell by 225 kb/d to 29.8 mb/d on Venezuelan maintenance and renewed outages in Iraq and Nigeria. Effective spare capacity, currently 2 mb/d, could stay tight in the coming months if Nigerian and non-OPEC outages persist and OPEC raises output to compensate. Though weakening in 2007, the adjusted 'call on OPEC crude and stock change' stays close to 30 mb/d through to 1Q07.

- **Global oil product demand** remains unchanged at 84.8 mb/d in 2006 as strong 2Q Chinese demand was offset by downward adjustments to US data and relative demand weakness in Europe and Japan. Chinese apparent demand was lifted in June by a spike in fuel oil demand and stronger-than-expected 2Q economic growth.

- **OECD total industry oil stocks** were unchanged in June at 2,664 mb as draws in crude and other oils inventories were offset by increasing product stocks. OECD forward demand came to 54 days, unchanged from last month and one day above last year. Total stocks increased by 0.74 mb/d (67 mb) in the second quarter, slightly below the historical 2Q average.

- **Refining margins** weakened in July, as refiners ended seasonal maintenance and lifted throughput to meet peak summer demand. While a glut of fuel oil depressed hydroskimming margins, complex refinery margins remain near historically high levels.

Next Issue: 12 September 2006

CONTENTS

HIGHLIGHTS....1

CONTENTS....2

PUTTING IT INTO CONTEXT....3

DEMAND....4
- Summary....4
- OECD....5
  - Overview....5
  - North America....6
  - Europe....7
  - Pacific....8
- Non-OECD....9
  - Overview....9
  - China....9
  - Other Non-OECD....10

SUPPLY....12
- Summary....12
- OPEC....13
- Niger Delta Woes Offset Rising Deepwater Supply....15
- OECD....16
  - North America....16
- BP Alaskan Production Closure....18
  - North Sea....19
- Former Soviet Union (FSU)....19
- Other Non-OPEC....20
  - Revisions to Other Non-OPEC Estimates....20

OECD STOCKS....22
- Summary....22
- OECD Industry Stock Changes in June 2006....23
  - OECD North America....23
  - OECD Europe....23
  - OECD Pacific....24
- OECD Inventory Position at End-June and Revisions to Preliminary Data....24
- Recent Developments in ARA Independent Storage....25
- Recent Developments in Singapore Stocks....25

PRICES....27
- Summary....27
- Oil Futures Prices....27
- Spot Crude Oil Prices....28
  - Delivered Crude Prices in May....29
- Spot Product Prices....29
  - End-User Product Prices in July....30
- Freight....31

REFINING....33
- Summary....33
- Refining Margins....33
  - OECD North America....33
  - OECD Europe....35
  - Asia....37
- Refinery Throughput....37
  - OECD North America....38
  - OECD Europe....39
  - OECD Pacific....39
- Offline Refinery Capacity....39
  - Non-OECD Throughputs....40

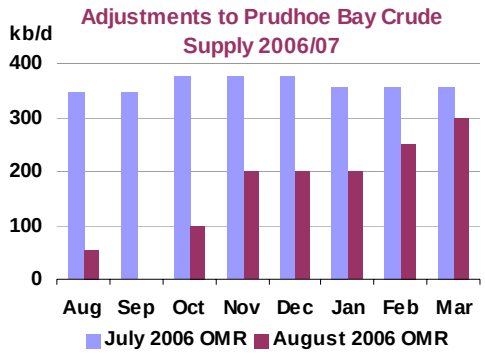
TABLES....42

OIL MARKET REPORT CONTACTS

PUTTING IT INTO CONTEXT

Given the continued deterioration of supply-side fundamentals, it might appear surprising that prices are not higher. Middle East turmoil, Iran's nuclear activities, physical outages in Iraq and Nigeria, the shutdown of BP's 400 kb/d Prudhoe Bay field and the pending North Atlantic hurricane season would appear to make market direction a one-way bet. Scratch below the surface though and these geopolitical and supply issues are less defining for the oil market than they appear.

For example, the rise in oil prices to nominal record highs in mid-July was a direct reflection of concerns that the Israeli bombardment of Lebanon could ultimately threaten oil supplies from the Middle East. Once it was clear that world leaders were discussing political solutions and that no major suppliers would be directly affected, the premium dissipated. Similarly, Iran's steadfast refusal to meet UN Security Council demands on nuclear-related activities ratchets up fears of a supply disruption as the 31 August deadline approaches. Whether events will finally evolve into a supply disruption remains to be seen, but for the moment this is a psychological rather than physical issue.



But, there are several more tangible and immediate supply issues. In Nigeria, some 750 kb/d of capacity is currently offline. Shell has indicated that some of its facilities could return quickly but others are likely to be out of action until the end of the year and few would be surprised if problems continued until the presidential elections in April 2007. There may, however, be some offset from new offshore developments due to come on stream at the end of the year.

BP is shutting in its 400 kb/d Prudhoe Bay oil field in Alaska following renewed evidence of pipeline corrosion. The company has indicated that it will carry out further inspections of the Western trunk lines, which may allow an early restart of 200 kb/d. Until more information is available we have decided to take a conservative approach, removing the field from our forecasts for the rest of August and September, with a gradual recovery in output thereafter. However, the net loss is not quite as large as headlines of a 400 kb/d outage suggest: the *Oil Market Report (OMR)* had already been working on the basis of constrained output prior to the shutdown.

While Prudhoe Bay represents a significant outage, there are potential offsets, from Saudi Arabia, the US SPR and above-trend refiner stocks. And, although its mitigation by OPEC would remove up to a fifth of effective OPEC spare capacity, the market impact may be limited as 400 kb/d had recently been withdrawn from the market by Saudi Arabia. Further, when the losses are amalgamated into our balances (and allowing for the average 640 kb/d *miscellaneous to balance* over the last two years), the call on OPEC through to the end of the year remains below OPEC's average output for the past three months.

OMR Monthly Balance for 2006
(million barrels per day)

	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06
OECD Demand	47.34	47.63	48.86	49.69	49.70	49.53	49.82	50.50	51.78
World Demand	**82.32**	**82.69**	**84.10**	**84.60**	**84.66**	**84.81**	**85.18**	**85.95**	**87.33**
Non-OPEC Supply	50.93	50.48	50.22	51.00	51.14	50.86	51.74	52.25	52.41
OPEC Crude	29.63	29.62	29.98	29.76					
OPEC NGLs	4.63	4.68	4.68	4.74	4.75	4.77	4.83	4.83	4.83
Total OPEC	34.26	34.30	34.66	34.50					
World Supply	**85.19**	**84.79**	**84.88**	**85.50**					
Call on OPEC Crude + Stock Ch.	*26.76*	*27.53*	*29.20*	*28.86*	*28.77*	*29.18*	*28.61*	*28.87*	*30.09*
*Adjusted Call **	*27.40*	*28.17*	*29.84*	*29.50*	*29.41*	*29.81*	*29.24*	*29.50*	*30.72*

* Arithmetic 'Call on OPEC + Stock Ch.' adjusted to include the most recent 8-quarter average Miscellanous-to-balance (approximately 640 kb/d).

In the current refinery-constrained environment, crude quality issues are more of a concern than volumetric outages. In the case of BP's Prudhoe Bay, the crude lost is medium sour and possible replacements from Saudi Arabia are likely to be sourer. But this crude could be blended and will be processed by sophisticated West Coast refineries with more flexibility to remove sulphur than refiners who typically rely on Nigerian light sweet crudes.

For the time being, the market can cope with current outages, but in the light of the many possible threats to output, including the current hurricane season, there is little doubt that the upstream spare capacity cushion remains thin.

DEMAND

Summary

- **Global oil product demand** remains effectively unchanged at 84.8 mb/d in 2006 (+1.4% over 2005) and 86.4 mb/d in 2007 (+1.9% over 2006), following offsetting changes in preliminary data in both OECD (downwards) and non-OECD countries (upwards). In terms of magnitude, China posted the largest monthly adjustment (+300 kb/d), closely followed by the US (-250 kb/d).

Global Oil Demand from 2005 to 2007

	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)	84.6	82.4	83.2	84.1	83.6	84.9	83.1	84.8	86.3	84.8	86.7	84.9	86.2	87.8	86.4
Annual Change (%)	2.6	1.5	1.4	-0.1	1.3	0.4	0.8	1.9	2.6	1.4	2.1	2.2	1.6	1.7	1.9
Annual Change (mb/d)	2.1	1.2	1.1	-0.1	1.1	0.3	0.7	1.6	2.2	1.2	1.8	1.8	1.3	1.5	1.6
Changes from last month's report (mb/d)	-	-	-	-	-	0.0	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Global Oil Demand by Region
(million barrels per day)

	Demand		Annual Change			Annual Change (%)		
	2006	2007	2005	2006	2007	2005	2006	2007
North America	25.57	25.99	0.09	0.11	0.42	0.3	0.4	1.6
Europe	16.18	16.18	0.01	-0.01	0.00	0.0	-0.1	0.0
OECD Pacific	8.59	8.60	0.10	0.00	0.01	1.2	0.0	0.1
China	7.05	7.44	0.17	0.43	0.39	2.6	6.5	5.5
Other Asia	8.90	9.14	0.16	0.10	0.23	1.8	1.1	2.6
Subtotal Asia	24.54	25.17	0.43	0.53	0.63	1.8	2.2	2.6
FSU	3.86	3.89	0.05	0.06	0.03	1.3	1.5	0.7
Middle East	6.47	6.81	0.32	0.33	0.34	5.6	5.4	5.3
Africa	2.95	3.02	0.08	0.07	0.07	3.0	2.4	2.4
Latin America	5.21	5.32	0.13	0.11	0.11	2.7	2.1	2.1
World	84.78	86.38	1.11	1.19	1.59	1.3	1.4	1.9

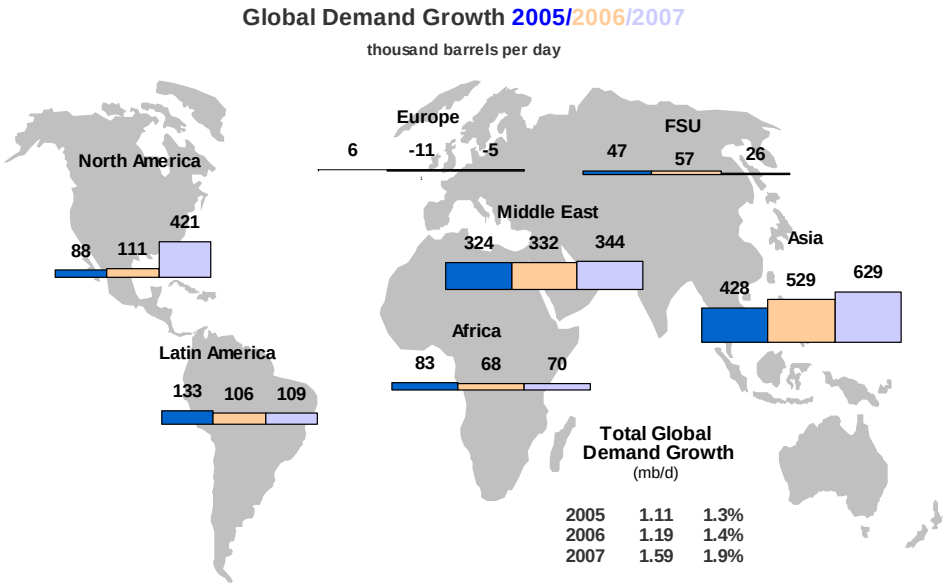
- **OECD demand** has been revised downwards by 46 kb/d to average 49.6 mb/d in 2006, largely due to changes in North American preliminary data, heating and fuel oil developments in Europe, and weaker-than-expected Pacific demand. For 2007, OECD demand is projected to reach 50.0 mb/d. *Note: At the time of writing, the UK bomb alert had just been announced. At this stage, it is premature to adjust our demand forecasts.*

Preliminary Inland Deliveries - June 2006[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]	9.51	1.3	1.70	2.5	3.37	4.8	0.73	-10.2	0.70	-15.3	4.8	-9.5	20.84	-1.9
Mexico	0.73	6.8	0.06	3.4	0.37	10.3	0.00	na	0.27	-19.4	0.4	0.8	1.79	1.1
Japan	1.04	-2.9	0.31	-15.6	0.64	-6.0	0.40	-17.8	0.38	-16.8	1.5	1.7	4.29	-5.9
Korea	0.16	-9.2	0.06	-17.1	0.47	0.9	0.03	-30.6	0.21	-7.1	1.0	3.4	1.96	-0.9
France	0.25	-6.3	0.14	0.8	0.69	1.3	0.22	-0.7	0.04	11.5	0.4	-1.9	1.79	-0.7
Germany	0.53	-6.8	0.19	8.2	0.60	-3.8	0.45	32.8	0.09	-7.5	0.5	1.1	2.35	2.7
Italy	0.31	-6.5	0.09	3.2	0.54	4.8	0.08	2.5	0.12	-18.0	0.4	4.2	1.54	-0.1
Total	**12.53**	**0.4**	**2.56**	**-0.3**	**6.67**	**2.5**	**1.90**	**-3.5**	**1.82**	**-14.7**	**9.1**	**-4.5**	**34.56**	**-1.7**

Sources: US EIA, 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.
Note: Monthly US demand data are subject to revision, as discussed in the Reports dated 13 July and 11 August 2005.

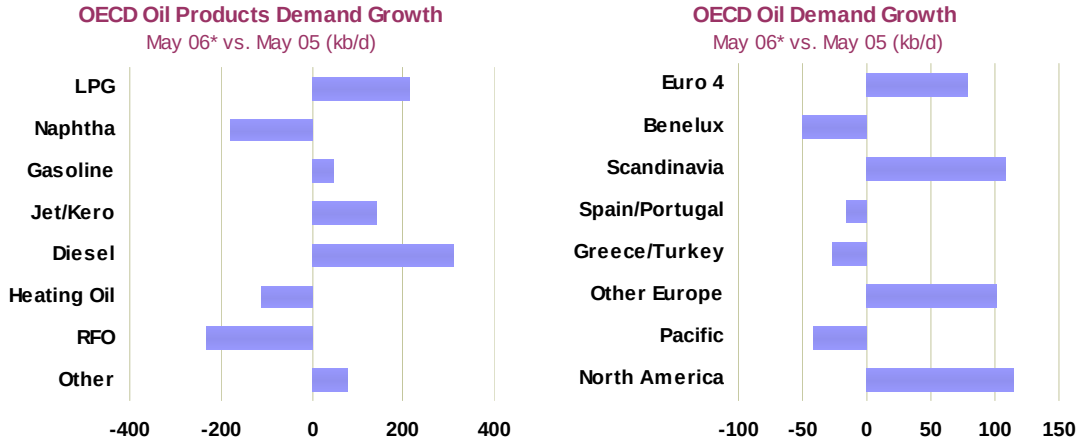
- **Non-OECD demand** has been slightly adjusted upwards by 31 kb/d to 35.2 mb/d in 2006 and by 24 kb/d to 36.4 mb/d in 2007. The revisions were prompted by stronger-than-forecast Chinese demand in 2Q06, driven by higher economic growth, a weather-related fuel oil spike, and a reassessment of the country's naphtha consumption over this year and the next.



OECD

Overview

According to preliminary June 2006 inland delivery data, demand growth was negative for the OECD as a whole (-1.7% versus June 2005). Moreover, all OECD regions posted negative growth rates in June when compared to the same month of the previous year: North America, -0.7%; Europe, -1.6%; and Pacific, -4.7%. This is mostly related to data revisions.



* Latest official OECD submissions (MOS)

Compared to last month's *OMR*, we have revised total OECD demand for 1Q06, 2Q06 and 3Q06, by +8 kb/d, -288 kb/d and +94 kb/d, respectively. As noted in the following sections, data changes were centred on US revisions, heating oil and residual fuel oil developments in Europe (notably in Germany and Italy) and weaker Japanese gasoline demand. For 2006 as a whole, we foresee a slightly lower OECD demand compared to our last report, at 49.6 mb/d (-46 kb/d). Regarding 2007, we have kept our previous demand forecast basically unchanged at 50.0 mb/d (a +12 kb/d revision is not discernible given rounding).

Total OECD Demand by Product
(million barrels per day)

	2005	2006	2Q05	3Q05	4Q05	1Q06	Mar 06	Apr 06	May 06*	Latest month vs. Apr 06	Latest month vs. May 05
LPG & Ethane	4.69	4.65	4.31	4.31	4.73	4.99	4.79	4.36	4.37	0.02	0.22
Naphtha	3.21	3.19	3.13	3.24	3.09	3.18	3.06	2.87	2.95	0.09	-0.18
Motor Gasoline	14.87	14.89	15.07	15.19	14.74	14.35	14.79	14.75	14.95	0.20	0.05
Jet & Kerosene	4.22	4.26	3.87	3.96	4.38	4.52	4.41	4.14	3.90	-0.24	0.14
Gas/Diesel Oil	13.06	13.24	12.66	12.75	13.40	13.75	14.23	12.50	12.60	0.10	0.20
Residual Fuel Oil	4.45	4.27	4.23	4.30	4.48	4.65	4.55	3.86	3.77	-0.08	-0.23
Other Products	5.05	5.12	5.27	5.38	5.03	4.72	4.78	4.87	5.08	0.21	0.08
Total Products	**49.53**	**49.61**	**48.54**	**49.13**	**49.86**	**50.16**	**50.62**	**47.34**	**47.63**	**0.29**	**0.27**

* Latest official OECD submissions (MOS)

North America

Regional demand growth in transportation fuels was strong in June. According to provisional data, motor gasoline deliveries in the region increased by 1.7% (year-on-year), jet and kerosene by 2.7%, and diesel by 2.8%. The region's overall demand, however, declined by 0.7%, as these positive motor fuel figures were more than offset by large drops in other categories (notably heating oil, residual fuel and 'other products'). The strength of transportation fuels was largely driven by the US, which represents roughly 87% of OECD North America gasoline consumption, 90% of the region's jet fuel and kerosene demand, and about 88% of its diesel use.

OECD North America Demand by Product
(million barrels per day)

	2005	2006	2Q05	3Q05	4Q05	1Q06	Mar 06	Apr 06	May 06*	Latest month vs. Apr 06	Latest month vs. May 05
LPG & Ethane	2.80	2.82	2.55	2.58	2.81	2.98	2.89	2.69	2.62	-0.07	0.18
Naphtha	0.45	0.44	0.48	0.50	0.30	0.36	0.36	0.34	0.45	0.11	-0.02
Motor Gasoline	10.61	10.71	10.74	10.77	10.58	10.35	10.64	10.58	10.81	0.23	0.13
Jet & Kerosene	1.93	1.95	1.89	1.93	1.97	1.87	1.90	1.94	1.92	-0.02	0.04
Gas/Diesel Oil	5.08	5.18	5.02	4.93	5.14	5.35	5.56	4.95	5.05	0.10	0.04
Residual Fuel Oil	1.57	1.41	1.46	1.61	1.62	1.43	1.45	1.19	1.12	-0.07	-0.29
Other Products	3.01	3.05	3.19	3.18	3.02	2.77	2.76	2.89	3.06	0.18	0.04
Total Products	**25.46**	**25.57**	**25.34**	**25.50**	**25.43**	**25.11**	**25.56**	**24.58**	**25.04**	**0.46**	**0.11**

* Latest official OECD submissions (MOS)

The driving season in the **United States** did indeed begin in earnest in June, bringing about a rise in gasoline consumption of almost 275 kb/d over May and in line with our previous forecast. Interestingly, US motorists appear undeterred in the face of higher pump prices, which have subsequently passed $3/gl.

Even though higher transportation fuel prices may feed through into inflation and monetary policy (interest rates), and eventually slow down economic growth, the limited impact of the rise in oil prices on the country's economic performance since 2003 highlights that other factors have a far greater influence. Indeed, US second-quarter GDP growth came in at a weaker-than-expected 2.5%, but follows on from a strong first quarter. To date, there has not been an appreciable downward shift in the consensus GDP growth forecasts for 2006 and 2007 that would, in turn, justify lower oil product demand forecasts.

Relatively small adjustments have been made to our 2006 and 2007 forecasts following the submission in May of US monthly data. Over the past months, as noted in previous reports, more accurate monthly data from the US Energy Information Administration (EIA) have turned out to be lower than preliminary weekly figures. Thus, April's change of -275 kb/d was followed by another adjustment of almost -250 kb/d in May – the bulk of which is accounted for in residual fuel oil and 'other products' (the fuel oil change is probably related, though, to relatively cheaper natural gas prices). We have therefore reduced our forecast of US50 overall demand for 2006 and 2007 by 48 kb/d and 13 kb/d, respectively. US demand in 2006 is now expected to average 20.9 mb/d (growing by +0.5% versus 2005) and 21.2 mb/d in 2007 (+1.6% versus 2006).

More revisions may be forthcoming as updated 2005 US data (from the EIA's *Petroleum Supply Annual [PSA]*) are expected to be released shortly. Last year's PSA posted a 214 kb/d upward revision to 2004 figures, which by definition altered implied growth rates for 2005. Therefore, given

the discrepancy between unadjusted weekly and monthly numbers, strong economic growth over 2005 and the imminent release of annual data, we have held back from carrying forward recent data adjustments.

Regarding the other North American countries, we have made negligible changes in **Canada's** expected oil product consumption growth in the first three quarters of 2006, given minor adjustments to submitted MOS data. The country's demand is still seen to average 2.2 mb/d in 2006.

The figures for **Mexico** also remain unchanged, at 2.1 mb/d in 2006. Mexico's strong economic performance (which follows the US economic cycle very closely) in the first half of this year should allow it to weather the ongoing political uncertainty brought about by the recent presidential elections.

Overall, given the predominantly US-induced adjustments detailed above, we have cautiously revised North America's demand growth for the first three quarters of 2006. These adjustments affect both 2006 and 2007, lowering the region's respective demand forecasts to 25.6 mb/d and 26.0 mb/d, respectively.

Europe

According to preliminary data for June 2006, oil product deliveries in OECD Europe fell by 1.6% (year-on-year). Naphtha and diesel growth (+2.1 and +1.2%, respectively) failed to offset declines in LPG (-4.5%), gasoline (-6.3%), jet fuel and kerosene (-3.2), residual fuel oil (-8.8%), and 'other products' (-1.6%).

The relatively buoyant diesel demand, which represents about a third of total regional oil product consumption, provides further evidence of the ongoing 'dieselisation' of Europe's motor vehicle fleet. Even though high taxes reduce the sensitivity of European demand to shifts in wholesale prices, the adoption of diesel-powered vehicles also reflects consumers' quest to lower running costs in the face of persistently high pump prices.

OECD Europe Demand by Product
(million barrels per day)

	2005	2006	2Q05	3Q05	4Q05	1Q06	Mar 06	Apr 06	May 06*	Latest month vs. Apr 06	Latest month vs. May 05
LPG & Ethane	1.00	0.97	0.90	0.91	1.04	1.08	1.04	0.84	0.94	0.09	0.03
Naphtha	1.18	1.15	1.14	1.15	1.21	1.17	1.17	1.09	1.01	-0.08	-0.16
Motor Gasoline	2.65	2.56	2.74	2.75	2.56	2.44	2.53	2.59	2.63	0.04	-0.07
Jet & Kerosene	1.24	1.29	1.22	1.33	1.23	1.23	1.30	1.25	1.32	0.08	0.11
Gas/Diesel Oil	6.10	6.19	5.80	6.07	6.34	6.47	6.64	5.72	5.87	0.15	0.17
Residual Fuel Oil	1.82	1.82	1.78	1.70	1.80	2.06	2.03	1.67	1.72	0.05	0.03
Other Products	1.48	1.48	1.55	1.63	1.46	1.28	1.34	1.45	1.57	0.13	0.07
Total Products	**15.48**	**15.45**	**15.14**	**15.55**	**15.64**	**15.74**	**16.04**	**14.61**	**15.06**	**0.44**	**0.20**

* Latest official OECD submissions (MOS)

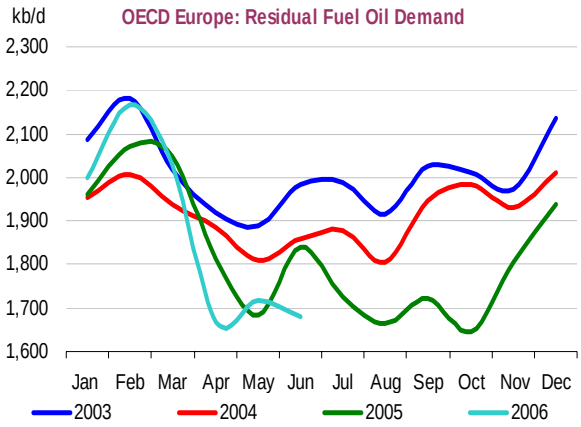
Germany's primary heating oil demand rose sharply in June, confirming the consumer stock-building that began in May alongside seasonal patterns (the country generally replenishes its domestic heating oil tanks between May and September). Nonetheless, since 2003 this tank-filling seasonality has become more volatile as a result of high prices. German consumers have tended to purchase lower-than-average heating oil stocks, leading to large swings in demand – June's consumption jumped by +32.8% versus the previous year. Overall, gasoil demand rose by 9.3% as diesel's weak performance (-3.8%) was more than offset by heating oil's gain.

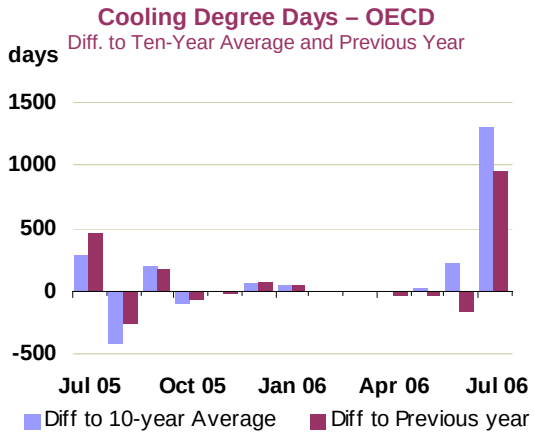
Meanwhile, **Italy's** fuel oil demand fell sharply in June (-18%) as a result of its lower intake in power plants, mostly because of milder weather (electricity is widely used to heat households). In addition, the country will probably continue its gradual shift to natural gas – provided, of course, that there are no further supply disruptions as earlier in the year and that adequate transport infrastructure is available.

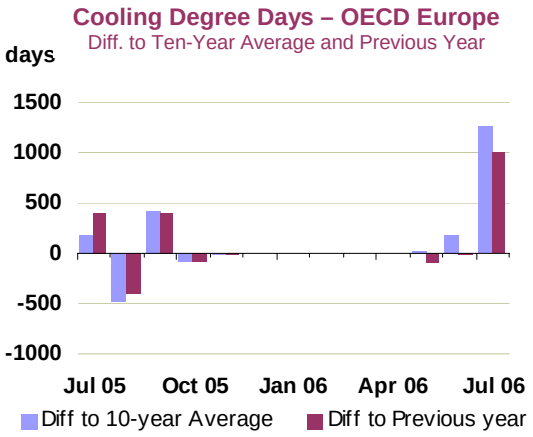
We have not made any significant adjustments to our fuel oil demand forecasts following July's heat wave. Historically, Europe's fuel oil demand is not closely correlated to high temperatures. Even in 2003 (the year of the previous heat wave), fuel oil use did not shoot up in July with respect to June. Although stock management policies by utilities may have then clouded an increase in fuel oil demand, there appeared to be little shift from normal seasonal patterns in the second half of that year. The region's fuel oil demand pattern can be explained by the fact that, contrary to the US or Japan, Europe has considerably less domestic air conditioning; therefore, additional electricity requirements

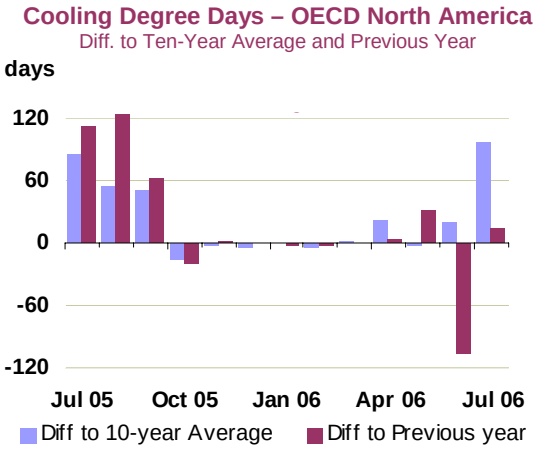
that may arise during the hot summer months can be fulfilled by existing hydro and nuclear power sources.

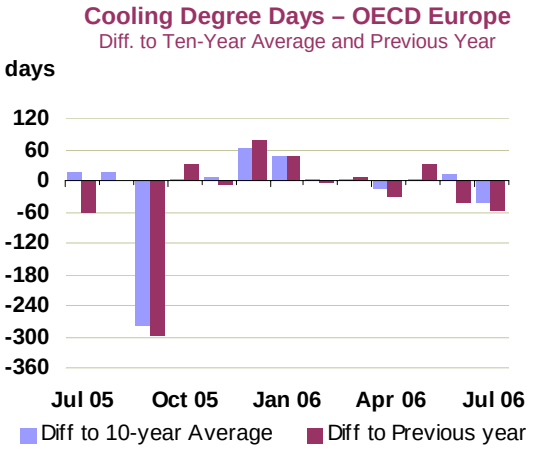
As a result of revisions to submitted data in various countries, we have made only minor adjustments to our demand forecast of oil product consumption in OECD Europe. Thus, 1Q06 demand now stands at 15.7 mb/d (+12 kb/d versus the last report) and 2Q06 at 14.9 mb/d (+2 kb/d), while the third and fourth quarters remain unchanged. We foresee that demand for the year as a whole will average 15.5 mb/d, implying a decline of 0.2% over 2005, and 15.4 mb/d in 2007, a decrease of 0.1% versus this year.











Pacific

Preliminary delivery data for June 2006 indicate that oil product demand in OECD Pacific fell by 4.7% (year-on-year). In fact, growth was negative for all product categories with the exception of LPG and naphtha. This overall weakness is attributable mostly to Japan, which represents some two-thirds of the region's total oil product demand.

Japan's provisional figures indicate that oil product demand in June was quite weak (-6.6% versus the same month in 2005). Both rainy weather and increased availability of nuclear power played a role, reducing demand for residual fuel oil and direct-burning crude (both generally used for power generation). It also lowered gasoline consumption – which accounts for about a fifth of total demand – by almost 3%, as motorists chose to drive less.

Nevertheless, it should be pointed out that Japan's driving season follows a different pattern from those observed in the US and Europe: it usually takes off around the Golden Week holiday (late April/early May), fades during June's monsoon, and rebounds again in July and August. However, the shifting demographics of Japanese society (its gradual ageing), increasingly efficient (and also smaller) cars, and higher fuel prices will possibly preclude a dramatic rebound of gasoline consumption in the months ahead. As a whole, we project that Japanese demand will remain unchanged at 5.3 mb/d in 2006, the same as last month's report.

OECD Pacific Demand by Product
(million barrels per day)

	2005	2006	2Q05	3Q05	4Q05	1Q06	Mar 06	Apr 06	May 06*	Latest month vs. Apr 06	Latest month vs. May 05
LPG & Ethane	0.89	0.86	0.86	0.82	0.88	0.93	0.87	0.82	0.81	-0.01	0.00
Naphtha	1.58	1.59	1.50	1.58	1.58	1.65	1.53	1.43	1.49	0.05	0.00
Motor Gasoline	1.61	1.61	1.59	1.66	1.61	1.57	1.62	1.58	1.52	-0.07	-0.01
Jet & Kerosene	1.04	1.02	0.75	0.70	1.19	1.42	1.21	0.95	0.65	-0.30	-0.01
Gas/Diesel Oil	1.87	1.87	1.84	1.75	1.91	1.92	2.03	1.83	1.68	-0.14	-0.01
Residual Fuel Oil	1.05	1.04	0.98	0.98	1.07	1.16	1.07	1.00	0.94	-0.06	0.02
Other Products	0.55	0.59	0.53	0.57	0.55	0.67	0.69	0.54	0.45	-0.09	-0.03
Total Products	**8.59**	**8.59**	**8.06**	**8.07**	**8.79**	**9.30**	**9.02**	**8.15**	**7.54**	**-0.62**	**-0.04**

* Latest official OECD submissions (MOS)

Meanwhile, demand in **Korea** lost the momentum it had seen in May, shrinking by 0.8% in June. This was mostly due to deferred activity because of high oil prices. The only exception was diesel, which shot up by 8.7% as consumers bought ahead of a 10.6% tax hike that was due to take effect on 1 July. This was a blip in an otherwise flat picture. Therefore, compared to last month's report, Korean demand remains unchanged at 2.2 mb/d in 2006.

Overall, our demand forecasts of oil product consumption in OECD Pacific for 2006 and 2007 remain virtually unchanged, at 8.6 mb/d (nil growth versus 2005) and 8.6 mb/d (+0.1% versus 2006, a barely discernible change).

Non-OECD

Overview

We have raised both our 2006 and 2007 non-OECD demand forecasts, mostly given strong Chinese demand in 2Q06. For 2006, we now foresee non-OECD demand reaching 35.2 mb/d (+31 kb/d compared to the last report, implying a growth rate of 3.3% versus 2005), and 36.4 mb/d in 2007 (+24 kb/d and 3.4% higher than this year).

China

Chinese apparent demand – the sum of domestic refinery output and net product imports, with adjustments for direct crude burning, smuggling and unreported refinery output – came in almost 300 kb/d above forecast in June. This implies a year-on-year growth of approximately 12.4% for the month (albeit admittedly from a relatively weak June 2005), raising the average demand in 2Q06 by 85 kb/d to some 7.1 mb/d.

China Crude & Product Trade
(thousand barrels per day)

	2004	2005	3Q2005	4Q2005	1Q2006	2Q2006	Apr 06	May 06	Jun 06	Latest month vs. May 06	Latest month vs. Jun 05
Net Imports/(Exports) of:											
Crude Oil	2346	2387	2294	2407	2872	2811	2773	2899	2759	-141	238
Products & Feedstocks	661	480	445	599	512	760	659	696	927	231	927
Gasoil/Diesel	43	-19	-40	-3	-10	-14	-4	-15	-22	-7	-22
Gasoline	-125	-130	-155	-55	-107	-56	-63	-72	-34	38	45
Heavy Fuel Oil	506	418	397	402	406	522	447	468	654	186	654
LPG	201	194	216	182	146	227	217	226	238	13	238
Naphtha	-33	-35	-25	1	-15	-36	-18	-58	-32	26	-43
Jet & Kerosene	16	11	2	30	43	34	20	7	77	70	86
Other	52	41	49	42	49	83	60	141	46	-94	-30
Total	3008	2867	2739	3006	3384	3571	3432	3595	3686	90	1165

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

This upward adjustment stems mainly from a spike in fuel oil use, coupled with China's robust economic pace. The increase in fuel oil consumption, which accounted for roughly two-thirds of the revision, can be attributable to warmer-than-usual weather and to some feedstock buying by smaller, 'teapot' refineries (which in turn implies higher product supply). Strong GDP growth, meanwhile (+11.3% in 2Q06, according to official statistics), was reflected in higher consumption of transportation fuels.

Several caveats, though, are in order. First, July fuel oil imports were reported to be weak, suggesting that part of June's rise was related to stock building. Second, given that July was unexpectedly rainy and cold, fuel oil consumption is expected to return to more 'normal' levels (even allowing for its use as an unofficial refinery feedstock) and with it overall demand. Third, the government is expected to increase retail motor fuel prices or perhaps introduce a fuel tax before the end of the year (although the recent swathe of retail price hikes has seemingly failed to dent demand). Finally, Chinese oil product demand growth has tended to be lower than what would be expected given its economic dynamism, essentially because of the country's gradual shift away from fuel oil.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2005	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
LPG & Ethane	638	656	667	17	11	2.7	1.7
Naphtha	774	888	942	114	55	14.7	6.2
Motor Gasoline	1091	1181	1262	91	81	8.3	6.8
Jet & Kerosene	238	269	291	31	22	13.2	8.2
Gas/Diesel Oil	2127	2262	2432	135	169	6.4	7.5
Residual Fuel Oil	787	747	733	-40	-14	-5.1	-1.9
Other Products	966	1048	1111	82	62	8.5	6.0
Total Products	**6621**	**7052**	**7438**	**431**	**387**	**6.5**	**5.5**

Nevertheless, it is likely that the Chinese economy will grow faster than anticipated in earlier consensus forecasts. In addition, we made some adjustments to both the timing of naphtha supply additions over the course of 2006 and 2007 and to naphtha's demand seasonality. Therefore, we have slightly raised our forecast for both years (+24 kb/d and +21 kb/d, respectively). As a whole, we now see China's oil product demand reaching 7.1 mb/d in 2006 (+6.5% versus the previous year) and 7.4 mb/d in 2007 (+5.5%).

Other Non-OECD

Preliminary data show that **Indian** demand rose by a modest 2.8% year-on-year in June, following two months of strong growth (+6.3% in April, and +7.8% in May). This brings demand in 2Q06 to 2.8 mb/d on average and to 2.7 mb/d for the year as whole – basically unchanged versus last month's report.

India Crude & Product Trade
(thousand barrels per day)

	2004	2005	2Q2005	3Q2005	4Q2005	1Q2006	Mar 06	Apr 06	May 06*	Latest month vs. Apr 06	Latest month vs. May 05
Net Imports/(Exports) of:											
Crude Oil	1945	1927	1894	1965	1882	2216	2156	2227	2156	-72	250
(by Public Oil Cos)	1158	1131	1116	1112	1164	1427	1542	1593	1542	-51	421
Products & Feedstocks	-176	-123	-92	-116	-201	-370	-306	-317	-306	10	-320
Gasoil/Diesel	-139	-139	-108	-135	-224	-219	-193	-94	-101	-7	-25
Gasoline	-75	-24	-39	-35	29	-78	-68	-72	-60	12	-7
Heavy Fuel Oil	-6	-5	10	7	-34	-47	-51	-47	-47	1	-76
LPG	86	98	74	98	126	55	4	23	21	-2	-65
Naphtha	-7	-32	-39	-28	-47	-74	-97	-91	-89	3	-80
Jet & Kerosene	-47	-34	-5	-33	-63	-65	-70	-42	-59	-18	-84
Other	12	14	15	10	13	58	168	7	28	21	17
Total	1769	1804	1801	1849	1681	1846	1849	1911	1849	-62	-69

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

Demand growth remains weak despite the fact that India's economy is expanding at some 8% annually. Some independent observers attribute this to widespread product adulteration, which could be significant given that India's vehicle fleet has been increasing at double-digit rates and that refiners

are purportedly operating at full capacity. Diesel allegedly diverted from the public distribution system (PDS) is often diluted with kerosene, solvents and other chemicals, and resold in the black market.

In the absence of adulteration, some analysts reckon that gasoline and diesel demand could be some 100 kb/d higher. This, however, is debatable, since adulteration implies a shift between products: if diesel figures are allegedly too low, kerosene's must necessarily be too high – suggesting that the overall demand picture is subdued as a consequence of other factors, such as structural rigidities in the Indian economy and the rapid expansion of its services sector.

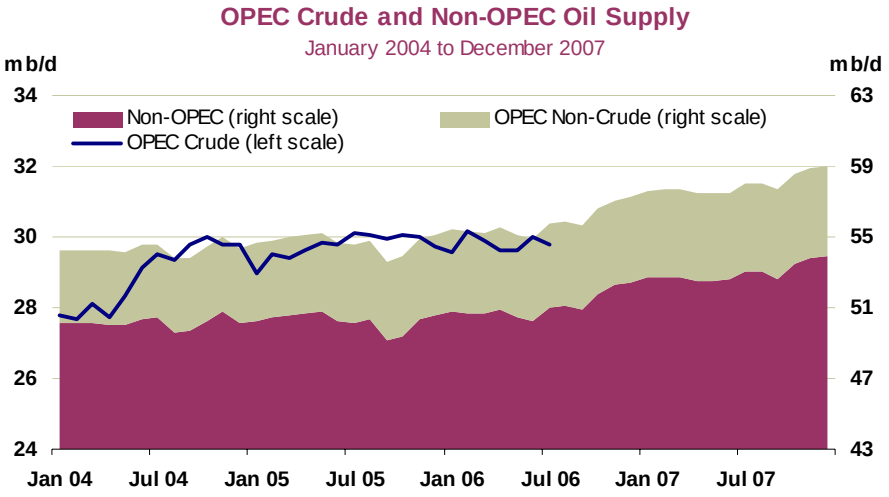
FSU apparent demand (the difference between crude production and net exports of crude and oil products) has been revised slightly upwards in 2Q06 and in the first half of 2007, following a reappraisal of Russia's crude oil production and exports over that period (see Supply section). Overall, though, these changes were very minor (+10 kb/d in 2006 and +3 kb/d in 2007). As such, the region's apparent demand is still projected to grow by some 1.5% in 2006 to 3.9 mb/d.

Finally, **Brazil's** oil demand rebounded by an annual rate of 2.2% in May after April's sharp contraction (-1.7%), pulled up by a rise in the consumption of transportation fuels and other products (which include fast-growing ethanol). Gasoline demand rose by 1.3%, while jet fuel and kerosene consumption jumped by 7.1%. By contrast, gasoil use fell by 0.3%. This pattern of Brazilian demand is in line with this report's forecast; nevertheless, we revised 2Q06 marginally (+6 kb/d). The country's 2006 oil product demand is virtually unchanged, at an average of 2.2 mb/d (+1.8% over 2005).

SUPPLY

Summary

- **World oil supply** in July gained 615 kb/d versus June to average 85.5 mb/d. Lower OPEC supply was countered by increases of 350-400 kb/d from both the OECD and non-OECD areas. However, a renewed bout of major unscheduled outages affecting Alaska (Prudhoe Bay), Nigeria and Iraq, on top of heavier August North Sea maintenance, look like restricting supply in August and September. On an annual basis, July production stood 800 kb/d above levels of a year ago, with increases from the non-OECD producers and OPEC gas liquids outstripping a weaker trend from the OECD and from OPEC crude.
- **Non-OPEC supply** estimates remain prone to downward adjustments brought about by delays in the start-up of new facilities and unscheduled outages for existing production. The 2006 estimate has been revised down by 220 kb/d, to 51.1 mb/d. This is largely the result of the recently announced Prudhoe Bay shutdown, but also because of outages and delays affecting the US GOM, Sudan, Yemen, Mauritania, Norway and Oman. However, with many of these factors likely to be temporary, the impact on 2007 production is minimal. Projected non-OPEC supply for 2007 remains largely unchanged at 53.0 mb/d. Significant growth next year derives from the US, Canada, Brazil, the FSU and Africa.
- **OPEC crude supply** for July is estimated to have fallen by 225 kb/d versus June, and averaged 29.8 mb/d. The June estimate however was revised higher by 185 kb/d due to stronger-than-expected performance by Iran, Venezuela and UAE. Planned Venezuelan upgrader maintenance now appears to have slipped from June into July. July's supply drop from OPEC was consequently underpinned by Venezuela (120 kb/d) and by more modest reductions from Iran, Kuwait, Nigeria, Iraq, Algeria and Indonesia. Pipeline disruptions again impeded Nigerian and Iraqi supply. Saudi supply remained at reduced levels for a fourth month, averaging 9.2 mb/d in July.
- **OPEC spare capacity** remained close to last month's assessed level of 3.0 mb/d nominal, and 2.0 mb/d effective, the latter excluding Indonesia, Iraq, Nigeria and Venezuela. Recent declining production leads to a cut in assessed Indonesia capacity to 950 kb/d although this is offset by an increase in the estimate for Qatar to 865 kb/d. Sustainable capacity is scheduled to rise by a further 300 kb/d on a net basis by the end of 2006 to 33.1 mb/d and by another 800 kb/d over the course of 2007. However, recent Nigerian outages risk undermining the former increase.
- The **'call on OPEC crude and stock change'** is revised up by 0.2 mb/d to 29.0 mb/d for 2006, comprising a 0.6 mb/d adjustment for 3Q and 0.2 mb/d for 4Q. These adjustments are driven by weaker non-OPEC supply. The call remains at 28.4 mb/d for 2007 however, on the premise of sharp recovery in non-OPEC supply next year. Nonetheless, adjusting for a 0.6 mb/d miscellaneous to balance factor pushes the call in the period through to 1Q07 closer to prevailing OPEC production levels around 30 mb/d.



All world oil supply figures for July discussed in this report are IEA estimates. Estimates for OPEC countries, Alaska, Oman and Russia are supported by preliminary July 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 for July is estimated to have fallen by 225 kb/d compared to June and averaged 29.8 mb/d. The June estimate however was revised higher by 185 kb/d to 30.0 mb/d due to stronger-than-expected performance by Iran, Venezuela and UAE. Planned Venezuelan upgrader maintenance now appears to have slipped from June into July, boosting the assessment for June Orinoco heavy crude production. Also for June, storage of heavy, sour crude by Iran and field maintenance in Abu Dhabi both now look to have been less than earlier thought, again raising supply from last month's estimate. July's reduction in supply from OPEC was underpinned by Venezuela (120 kb/d) and by more modest reductions from Iran, Kuwait, Nigeria, Iraq, Algeria and Indonesia. Pipeline disruptions again impeded Nigerian and Iraqi supply, which averaged 2.26 mb/d and 2.05 mb/d respectively. Saudi supply remained at reduced levels for the fourth month running, averaging 9.2 mb/d in July.

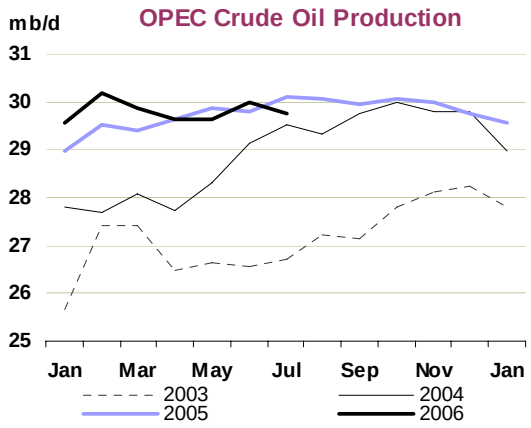
OPEC Crude Production
(million barrels per day)

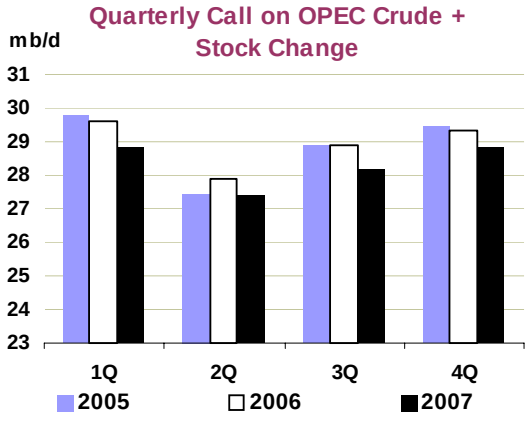
	1 July 2005 Target	July 2006 Production	Sustainable Production Capacity[1]	Spare Capacity vs July 2006 Production	Production vs. Target
Algeria	0.89	1.31	1.37	0.06	0.42
Indonesia	1.45	0.89	0.95	0.06	-0.56
Iran	4.11	3.90	4.00	0.10	-0.21
Kuwait[2]	2.25	2.47	2.60	0.13	0.22
Libya	1.50	1.72	1.72	0.00	0.22
Nigeria	2.31	2.26	2.60	0.34	-0.05
Qatar	0.73	0.84	0.87	0.03	0.11
Saudi Arabia[2]	9.10	9.20	10.80	1.60	0.10
UAE	2.44	2.66	2.70	0.05	0.21
Venezuela[3]	3.22	2.47	2.70	0.23	-0.75
Subtotal	**28.00**	**27.72**	**30.31**	**2.59**	**-0.29**
Iraq		2.05	2.50	0.46	
Total		**29.76**	**32.81**	**3.05**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.96)*	

1 Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Includes Orinoco extra-heavy oil assumed at 510 kb/d in July

Installed production capacity among OPEC members remained unchanged at 32.8 mb/d in July, although **Indonesian** capacity was revised down to 950 kb/d after several months of declining production. Despite ambitious government plans for incremental supply from new fields in the next few months, more sober estimates by foreign operators suggest, at best, flat-to-declining capacity in the immediate future. The downgrade for Indonesian capacity is offset by a now-higher estimate for **Qatar,** where capacity is now seen at 865 kb/d. Last month's report highlighted potential gains in OPEC capacity to 33.1 mb/d by end-2006 and 33.9 mb/d by end-2007. However, in as much as those projections were based on Nigerian capacity reaching 2.9 mb/d, there may be some downside risk here too. Statements in July suggested that among producers facing supply disruptions in the Niger Delta, Shell at least sees only minimal volumes being reinstated in the second half of 2006.

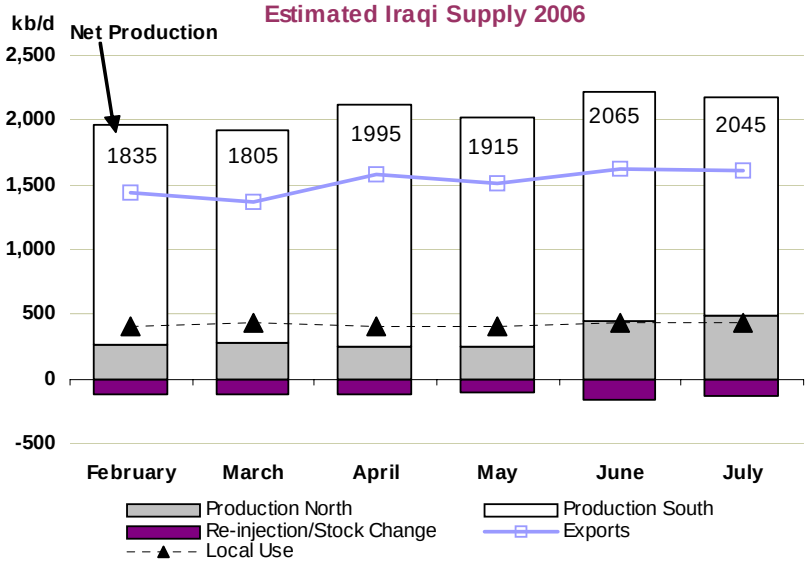
Spare capacity also remains unchanged at 3.0 mb/d on a nominal basis and at 2.0 mb/d if Indonesia, Iraq, Nigeria and Venezuela are excluded. Scheduled OPEC net capacity expansions could now prove marginal by the end of 2006 if rising Nigerian deepwater supplies continue to be offset by outages in the Niger Delta. Supply disruptions here and elsewhere, such as in Alaska, may prompt other OPEC producers to sustain, and perhaps build on, recent production levels. While welcome of itself, in the absence of more rapid progress in expanding capacity, the risk is that spare capacity levels remain thin for some months to come.





Iraqi supply (net of field reinjection and deliveries into storage) held steady in July at 2.05 mb/d, comprising 1.6 mb/d of exports and 440 kb/d of domestic consumption. Exports from Basrah in the south fell from 1.5 mb/d in June to 1.4 mb/d, but liftings from Ceyhan on Turkey's Mediterranean coast gained 70 kb/d to average 175 kb/d. Limited volumes around 10 kb/d also continued to move cross-border into Syria.

High hopes for sustained exports from Ceyhan were however dashed by renewed closure of the northern crude pipeline in the first week of July, after damage sustained during attacks by insurgents. However, Repsol, Vitol, Shell and Tupras were able to lift over 5 mb of crude from Ceyhan in July before the impact of the pipeline closure took hold. This pushed volumes held in storage at Ceyhan below 0.5 mb by the end of July. Low levels of storage forced the cancellation of the fourth spot export tender released since exports restarted in June. The pipeline, reportedly running at close to 300 kb/d just prior to the attacks, has not moved any crude since the latest closure. Initial repairs have been thwarted by a renewed attack at the end of July.



In the absence of a reactivated Kirkuk-Ceyhan pipeline, market reports suggest August Iraqi exports may struggle to breach 1.4 mb/d. Longer-term production prospects are being improved by progress on new water injection and gas/oil separation plants in the south. Small-scale development contracts concluded by Kurdish authorities in the north could also help sustain or increase current physical production capacity, estimated around 2.5 mb/d, by early 2007. Overall however, wider foreign-company participation is unlikely until security improves and a new hydrocarbon law setting out the terms for investment is formulated. Government sources have suggested that legislation could be in place by the end of 2006.

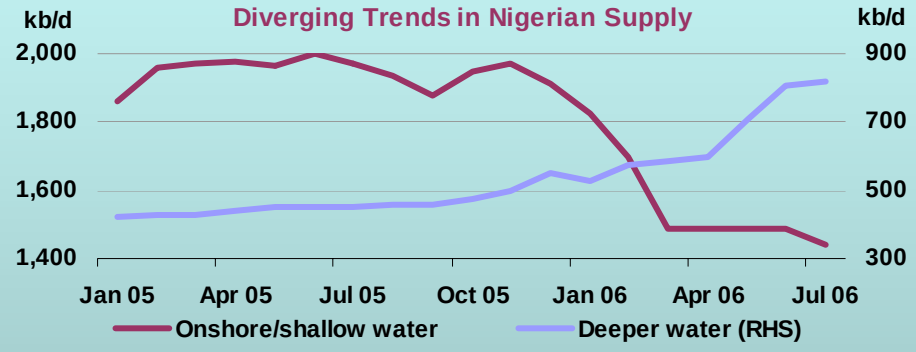
However, securing pipeline capacity to move crude to domestic refineries and to export terminals remains the Achilles heel of Iraqi operations at present. A US government report released in July has highlighted slow progress in renovating pipeline links between the northern oilfields around Kirkuk

with the Baiji refinery which could, when completed, raise northern production capacity from 500 kb/d to 800 kb/d. July illustrated the difficulties in sustaining flows to Ceyhan, despite reports of an increased security presence on the pipeline. Meanwhile, sectarian unrest in the south of the country risks undermining hitherto secure exports from Basrah, which have averaged 1.4 mb/d so far in 2006.

Niger Delta Woes Offset Rising Deepwater Supply

July saw a further drop in Nigerian crude supply to 2.26 mb/d, down from June's 2.29 mb/d and from a recent high of 2.5 mb/d in late 2005. Production this year has been severely affected by attacks from militants in the Niger Delta on service company facilities, pipelines, pumping stations and gas processing facilities.

July was notable for two supply disruptions in the last third of the month coming on top of a number of earlier unresolved outages. An accidental pipeline rupture on 21 July caused the shut-in of some 180 kb/d of Bonny crude production and saw Shell declare *force majeure* on exports on 25 July. Early estimates saw repairs taking a couple of weeks to complete. Although exports in early August are being made from storage, loading delays of several days have been common. Market sources suggest the late release of the September export programme, and its reduced level (two cargoes, or 55 kb/d, below the original 306 kb/d August programme) point to further delays in reactivating the pipeline. An attack on Agip's 35 kb/d Ogbainbiri pumping station in late July also shuttered production, although a negotiated settlement restored output by early August.



We estimate that the latest peak in shuttered production during July reached some 785 kb/d, although early August closures have receded somewhat to 750 kb/d. These comprise:

- Earlier but ongoing Bonny/Forcados shut-ins of 360 kb/d
- Shell's ongoing EA platform shut-in of 115 kb/d
- 180 kb/d of lost production in July/August due to the Bonny pipeline outage
- Associated Chevron stoppages of 25 kb/d
- Ongoing Chevron closures in effect since 2003 of 70 kb/d
- Agip's July closure of 35 kb/d (now reinstated)

Moreover, prior to its latest pipeline problems, Shell in July made statements to the effect that it did not expect to reinstate substantial quantities of its 475 kb/d of lost output until early next year, and possibly not before presidential elections in April 2007.

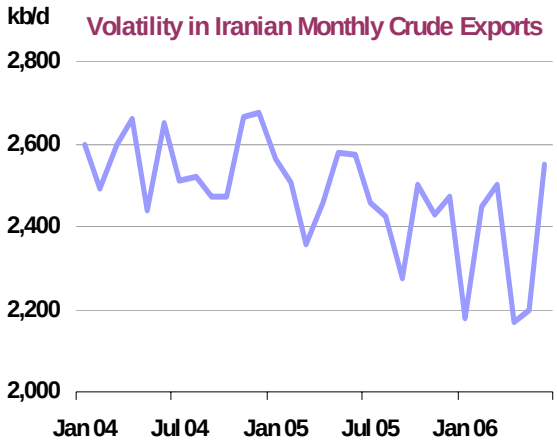
Declining supply from the Niger Delta stands in sharp contrast to performance from deepwater Nigerian facilities. At up to 50 miles offshore, facilities such as Shell's Bonga and Exxon's Erha have so far been immune from the disruptions plaguing onshore and Niger Delta supply. July also saw offshore increases in supply from Exxon's new EA additional oil recovery project, and reportedly from the Erha and Yoho fields, which helped to counteract Shell and Agip's shuttered production. This trend may well continue, with rising deepwater supply providing an offset to sporadic attacks on facilities nearer the coast and onshore. However such a scenario likely undermines plans for production capacity to reach 2.9-3.0 mb/d by 2007.

Saudi Arabian supply held flat in July at 9.2 mb/d, although the June estimate was itself revised down to 9.2 mb/d from an earlier 9.35 mb/d. This follows downward-revised tanker sailing data for the month. While spot tanker chartering activity moved sharply higher in July (and has stayed high for August) weaker overall sailings from the Arab Gulf as a whole last month suggest little change in Saudi supply. We have tended towards the latter indicator therefore in holding Saudi supply unchanged in July. There is a possibility, notably evidenced by the further rise in recent days in Saudi spot tanker bookings, that August will see Saudi supply push higher again. This may in part be in response to crude supply outages elsewhere, notably in Alaska.

After two months of much lower-than-expected exports, **Iranian** supply now appears to have rebounded sharply in June. The total supply estimate for June has been revised up by 200 kb/d to 3.95 mb/d, comprising 2.55 mb/d of exports and 1.4 mb/d of domestic refinery runs. The latter were 100 kb/d lower than in May due to maintenance at the Isfahan refinery. Early indications for July suggest that higher domestic refinery runs may have been outstripped by lower export liftings, leaving supply marginally off from June at 3.9 mb/d.

There have been repeated reports that some 12 mb of Soroush/Nowruz heavy crude stored offshore in tankers has now been sold off. Shell and Reliance of India were reported to have lifted most of the crude. A further 2.2 mb is reported to have been refined domestically at the Bandar Abbas refinery, while 3 mb remains in storage. NIOC hopes to regularly refine 100 kb/d of Soroush/Nowruz at Bandar Abbas, but will rely primarily on exports until those levels of domestic offtake can be sustained. The implication now is that earlier-suppressed production at the Soroush and Nowruz fields has recovered to near-capacity levels of 190 kb/d.

However, given both the increased volatility in Iranian exports in recent months, and the overall downward trend evident since early 2005, assessed production capacity of 4.0 mb/d has been held unchanged for now. Iranian officials have said in the past that the country faces ongoing field decline of 300 kb/d-plus per year. It may therefore be prudent in the case of Iran, as for other producers, to await unambiguous signs of higher production before boosting the capacity assessment.



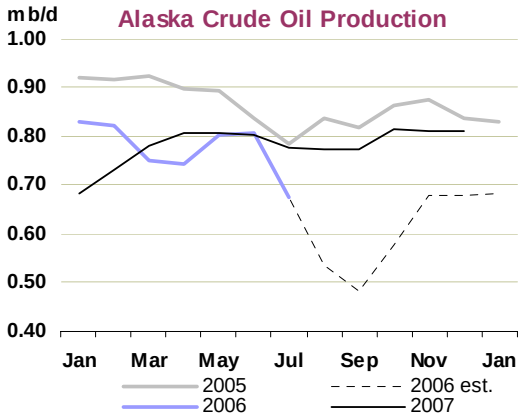
June **Venezuelan** supply has been revised up by 80 kb/d to 2.59 mb/d following the apparent deferral of maintenance at the Hamaca heavy oil upgrader from June into July/August. Based on this new schedule, and also a brief unplanned late June outage affecting the Sincor upgrader, July supply fell by 120 kb/d to 2.47 mb/d. Although these two facilities produce a combined 360 kb/d of synthetic crude, the net reduction in supply is minimised since heavy Orinoco crude supply has reportedly been sustained despite the upgrader outages. Heavy crude exports from Venezuela could be further boosted in the next few months after a serious fire in July damaged a 200 kb/d distillation unit at the Amuay refinery.

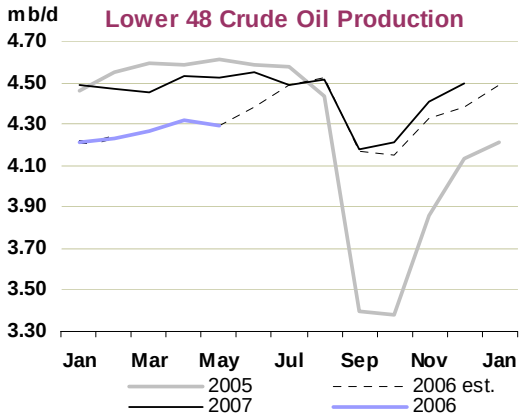
OECD

North America

US – Alaska July preliminary, others estimated: July US oil supply rose an estimated 40 kb/d to 7.42 mb/d, as sharply lower Alaskan production was countered by rising US GOM supply. For the latter area, Shell reported a more rapid-than-expected recovery after last year's storms for the Mars platform, which had attained production of 145 kb/d by the end of the second quarter. In total however, substantial downward revisions have been made to forecast US supply, concentrated in the 3Q06-1Q07 period. Projections during this period have been lowered by 250 kb/d to 300 kb/d. The downward adjustments average 145 kb/d for 2006 and 105 kb/d for 2007. Corresponding US annual oil supply now comes to 7.22 mb/d and 7.45 mb/d for 2006 and 2007 respectively, with crude production comprising 5.0 mb/d and 5.2 mb/d of the totals.

The bulk of these revisions derive from lower expectations for Alaskan supply after the early August announcement by BP that it was closing down the Prudhoe Bay oilfield following renewed pipeline leaks. The background to the Prudhoe Bay problems and their potential impact are discussed below. However, July also saw announcements from BP and BHP respectively concerning possible start up at the already delayed Thunder Horse and Atlantis fields in the Gulf of Mexico. This report has pushed back start-

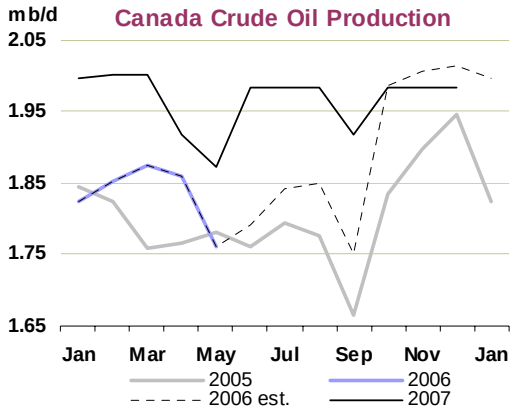


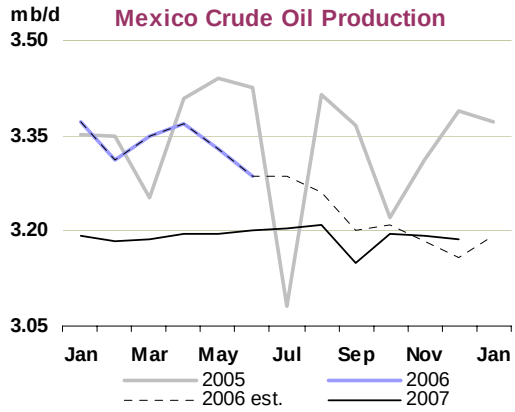


up for both fields to April 2007 from an earlier estimated November 2006 and January 2007 respectively. GOM production levels are revised down by 15 kb/d in 2006 and by 55 kb/d for 2007 as a result.

Canada – Newfoundland June actual, others May actual: Canadian oil supply is revised up by 10 kb/d for 2006 and by 15 kb/d for 2007, now averaging 3.23 mb/d and 3.38 mb/d respectively (with conventional crude amounting to 1.9 mb/d and 2.0 mb/d of the totals). The adjustments come from higher baseline NGL supply and a now-stronger expected profile for offshore Newfoundland output. New wells have boosted production at the White Rose field to 110 kb/d, with a sixth well by the end of the year potentially pushing output to 125 kb/d, subject to government approval.

After a patchy operating record in 2005 and early 2006, synthetic crude output is also poised to move higher. Output is seen averaging 650 kb/d this year and 695 kb/d in 2007, a cumulative rise of 150 kb/d from suppressed 2005 levels. Scheduled maintenance plus conveyor belt problems and environmental problems with flue gas desulphurisation equipment are responsible for lower production through 3Q06. However, there is potential upside to our existing estimate for Syncrude Inc output depending upon completion of its expansion project. Shell's plan to expand phase 1 of the Athabasca project by 100 kb/d by late decade has now been confirmed by the company, despite cost inflation amounting to 20% in the past year.





Mexico – June actual: Pemex production data for June showed a decline of some 45 kb/d for crude and NGL to 3.29 mb/d and 435 kb/d respectively. Separate Oil Ministry data showing sharp decline in first half production from the baseload Cantarell field were attributed by Pemex to maintenance work with the implication that production would rise in second half 2006. This report maintains a forecast for Cantarell in 2006 and 2007 showing decline rising to 10%. However, total Mexican crude production is seen levelling off in 2007 at 3.2 mb/d as new field developments help to temporarily offset supply losses from Cantarell.

Incremental volumes from the Ku-Maloop-Zaap complex (involving the Gulf of Mexico's first FPSO production system) and the shallow water Tabasco area are expected in 2007. In the longer term, Pemex has announced that its spending priority for 2007-2009 will be the onshore Chicontepec region, which could absorb 25% ($5.9 billion) of a total upstream budget of $23 billion. However, the ultimate volumetric contribution from Chicontepec is uncertain due to its geological complexity.

BP Alaskan Production Closure

On Sunday 6 August, BP began the three-to-five day process of completely shutting-in liquids production at the 400 kb/d capacity Prudhoe Bay field on the Alaskan North Slope. The closure is due to renewed leaks associated with pipeline corrosion. No other production (out of an Alaskan total of some 900 kb/d in 2005) has been affected. The precise extent of pipeline damage and the potential duration and volume of production shut-in were due to become clearer by the end of the week of 11 August, just as this report is released. The shut-in follows a visit by BP Chief Executive John Browne to Alaska to check on the progress made in overhauling the company's pipeline system after earlier corrosion-induced leaks.

Since October 2005, BP has been undertaking work on wells in the area, curbing production below capacity levels. In March 2006, a more serious pipeline leak caused the shut-in of 100 kb/d, with output affected through May. Pipeline maintenance in July on the Trans-Alaskan Pipeline System had also cut Prudhoe Bay production to around 315 kb/d for the month, and to levels around 200 kb/d in late July. The net loss to the market compared to late July production is therefore less than the commonly cited 400 kb/d capacity level. The latest outage will see BP replacing all of the pipe in the eastern half of the field. The company is investigating whether some 200 kb/d of production in the western half of Prudhoe Bay can be restarted.

Previous editions of this report had already been forecasting on the basis of below-capacity Prudhoe Bay output through to the end of 2006. With preliminary outside estimates by pipeline contractors suggesting outages of several months due to the latest problems, a further downward adjustment has been made to supply. Assumed Prudhoe Bay output is shown below (in kb/d). This scenario is based on resumed western production from October, but assumes that complete replacement of the eastern pipe is not finished until late January.

Adjustments to Prudhoe Bay Crude Supply
(thousand barrels per day)

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
July 2006 OMR	345	345	375	375	375	355	355	355
August 2006 OMR	55	0	100	200	200	200	250	300

Actual production could vary on either side of this preliminary projection, depending upon damage assessments and the feasibility of restarting western production. Nor is it certain that pre-outage production capacity will be regained in full, although for now the Prudhoe Bay production forecast beyond first quarter 2007 is held unchanged. One further hypothetical problem highlighted by the stoppage is that if total flows of Alaskan oil feeding the southbound Trans-Alaskan Pipeline System were to drop substantially below 350 kb/d, the line might need to operate in batch mode, pumping periodically to the Valdez export terminal when sufficient oil has accumulated at the start of the line.

US West Coast (PADD 5) crude oil imports for January to May 2006 are shown below. With crude oil runs at refineries in PADD 5 averaging 2.6 mb/d in this period, around 1.5 mb/d of Alaskan and Californian crude were processed.

US West Coast (PADD 5) Crude Oil Imports by Source
January-May 2006
(thousand barrels per day)

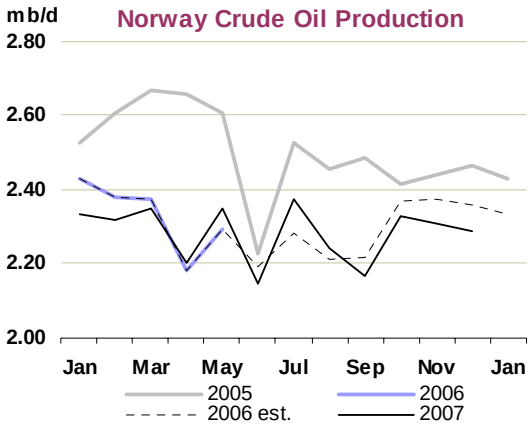
Saudi Arabia	298
Ecuador	218
Iraq	124
Canada	109
Mexico	57
Brazil	39
Argentina	36
Vietnam	27
Oman	26
China	20
Other Imports	186
Total	**1,140**

Alaskan North Slope (ANS) crude from Prudhoe Bay is 31°API, and contains 1% sulphur. It is primarily refined domestically on the US West Coast, with limited volumes exported to Asia. Lighter Middle Eastern grades (including Arab Light), Mexican Isthmus, Ecuador's Oriente and a number of heavier West African grades are similar in quality to ANS. Russian Urals is also not dissimilar. However, US West Coast refineries lack pipeline infrastructure to pull alternative US-landed supplies of domestic or foreign crude westwards. Replacement supplies will likely be sourced from Asia and Pacific Latin American ports or by diverting import cargoes, otherwise destined for the US Gulf, via the Panama Canal. Possible use of SPR crude and offers of higher supply from OPEC would involve the latter route. Swaps providing SPR crude to USG refiners and freeing up alternative waterborne supply to PADD V might be one option. However, at the time of writing no direct request from refiners had been received by the US DOE for supplies of SPR crude.

North Sea

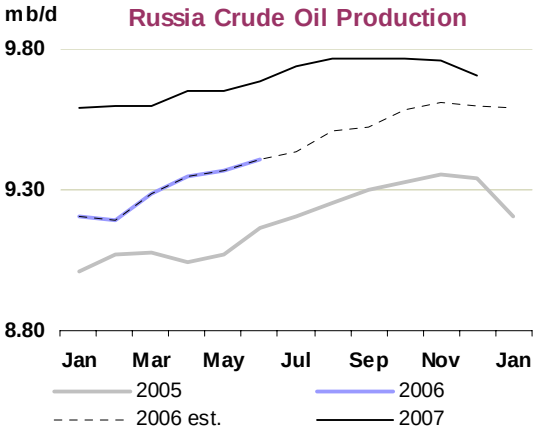
Norway – May actual, June provisional: Norwegian crude supply continues to oscillate on a monthly basis due to trends in scheduled field maintenance. May and June total oil output (including NGL and condensate) averaged 2.8 and 2.6 mb/d respectively, coming in 45 kb/d and 75 kb/d lower than previously forecast. However, June's weaker level was in part due to the impact of a drilling workers' strike which affected production at the Snorre, Grane and Vesslefrikk fields. This is likely to have affected July output also, the labour dispute having run from 21 June to 24 July.

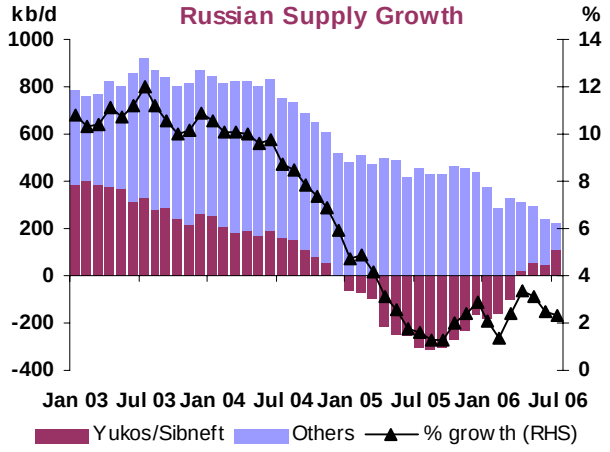
The strike effect and loading schedules for the main Norwegian export grades lead to downward adjustments for July and August production of 65-70 kb/d. There is also some indication that underlying summer maintenance levels are exceeding earlier published schedules. Notwithstanding the lower output through summer 2006, higher baseline data for the Ekofisk and Sleipner/Frigg production systems lead to a 20 kb/d upward revision to Norwegian supply for the period 4Q06 to 4Q07. In all, Norwegian liquids supply falls by 115 kb/d to 2.85 mb/d in 2006, reaching 2.88 mb/d in 2007 as higher condensate and gas liquids supply outstrips a modest decline for crude oil.



Former Soviet Union (FSU)

Russia – June actual, July provisional: Forecast Russian oil production is held largely unchanged from last month's report at 9.7 mb/d and 10.0 mb/d for 2006 and 2007 respectively. Growth averages 2.5-3% on an annualised basis compared to the 9% average seen during 2000-2004. June and July supply data came in 30-50 kb/d below expectations, largely on the back of weaker performance from Gazprom and the three main production sharing (PSA) projects. Export restrictions have hampered PSA output from the Kharyaga, Sakhalin I and Sakhalin II projects in recent months and may persist for some time. However, in as much as this report was already discounting earlier, higher production estimates for these projects, little lasting impact runs through forecast 2006 and 2007 supply. Nonetheless, with PSA production accounting for 22% of 2006 Russian growth and 52% in 2007, any sign of further political impediment to these projects could correspondingly undermine Russian growth prospects overall. Weaker mid-year PSA numbers were partly counteracted by higher baseline production from Lukoil, Sibneft and Rosneft.





Fiscal and corporate developments in July and early August revolved around Russia's production tax regime and the fate of beleaguered producer Yukos. Russia's lower house of parliament, the Duma, passed legislation that will exempt new oilfields and those that are heavily depleted from production tax, which currently amounts to some $12/bbl. The measures still require upper house and presidential approval. Meanwhile, Yukos was finally declared bankrupt on 1 August. Analyst opinion appears to see the break-up of the company rather than unified sell-off as the most likely option. Rosneft, which is currently long on crude production, is seen as near the front of the queue for Yukos' refining assets. While the bankruptcy undoubtedly reflects badly on Russia's underlying

investment environment, there may be some potential now for a modest increase in investment at moribund Yukos producing assets. However, this report retains for now a flat-to-declining profile for Yukos production until evidence of sustained growth re-emerges.

Lower Black Sea crude liftings and weaker products exports underpinned a 230 kb/d drop in FSU exports in June, despite inaugural liftings from the BTC pipeline. Preliminary indications suggest a relatively modest increase for exports overall for July. August export schedules from Transneft, possible higher BTC liftings of Azeri crude and recovering production after maintenance at the Tengiz field in Kazakhstan also point towards potentially higher crude volumes this month, despite higher Russian crude excise duties from 1 August.

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

	2004	2005	3Q2005	4Q2005	1Q2006	2Q2006	Apr 06	May 06	Jun 06	Latest month vs. May 06	Latest month vs. Jun 05
Crude											
Black Sea	2.20	2.27	2.30	2.23	2.25	2.26	2.15	2.46	2.16	-0.29	-0.07
Baltic	1.51	1.59	1.57	1.55	1.54	1.73	1.65	1.74	1.79	0.05	0.25
Artic/FarEast	0.25	0.19	0.22	0.17	0.10	0.11	0.09	0.13	0.12	-0.01	-0.12
BTC	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.03	0.03	0.03
Crude Seaborne	3.96	4.05	4.08	3.95	3.89	3.99	3.88	4.33	4.11	-0.21	0.10
Druzba Pipeline	1.10	1.15	1.14	1.23	1.20	1.17	1.12	1.17	1.20	0.03	0.10
Other Routes	0.23	0.25	0.24	0.26	0.31	0.35	0.40	0.31	0.42	0.10	0.14
Total Crude Exports	5.29	5.45	5.46	5.44	5.39	5.51	5.41	5.81	5.73	-0.08	0.33
Of Which: Transneft	3.76	4.20	4.26	4.32	4.31	4.33	4.23	4.50	4.53	0.02	0.35
Products											
Fuel oil	0.90	0.93	1.02	1.04	0.87	0.94	1.14	1.03	0.97	-0.07	-0.11
Gasoil	0.84	0.87	0.85	0.95	1.01	1.00	0.98	0.95	0.92	-0.02	0.13
Other Products	0.46	0.58	0.58	0.60	0.60	0.62	0.68	0.73	0.67	-0.06	0.10
Total Product	2.19	2.38	2.45	2.58	2.47	2.56	2.80	2.71	2.56	-0.15	0.11
Total Exports	7.48	7.83	7.91	8.02	7.87	8.07	8.21	8.52	8.29	-0.24	0.44
Imports	0.01	0.02	0.02	0.02	0.02	0.01	0.02	0.01	0.01	0.00	0.00
Net Exports	7.47	7.81	7.89	8.00	7.85	8.06	8.19	8.51	8.28	-0.23	0.44

Sources: Petro-Logistics, IEA estimates

As already noted above, there have been suggestions of politically-motivated export restrictions affecting supplies from the Kharyaga and Sakhalin II projects. Environmental checks on the soon-to-be inaugurated De Kastri terminal, which will handle Sakhalin I exports, also risk delaying the build up in supply there. Russian crude supplies were also recently diverted south to the Black Sea and away from to the Butinge terminal and Mazeikiu refinery, initially due to a pipeline leak, but later attributed by analysts to the facilities' purchase by Poland's PKN Orlen. It would appear that there is little let up in Russian efforts to maximise state control over crude supplies and export outlets.

Other Non-OPEC

Revisions to Other Non-OPEC Estimates

While OECD supply revisions for 2006 and 2007 are predominantly downward, and centred on weaker US supply, non-OECD adjustments in this month's report are downward for 2006 (-70 kb/d) but upward for 2007 (+35 kb/d). **Oman** and **Yemen** pull down the 2006 and 2007 forecasts by a combined 30-40 kb/d. Data for Oman for April to July 2006 show both crude and condensate running weaker than expected and result in a 20 kb/d revision for 2Q06 onwards. New, lower company data for the Masila and Block 9 producing areas account for a now-weaker profile for the Yemen. However, renewed growth in Yemeni supply kicks in from 2007 based on a number of new field developments involving blocks 9, 10, S1, 43 and 51.

Cameroon and **Equatorial Guinea** account for a 40 kb/d upward revision to baseline African supply in 2004 and 2005. This is carried through the forecast for 2006 and 2007. In the case of Equatorial Guinea, the adjustment follows indications of higher than expected output from Hess' Ceiba field. Despite this, a sharp downward adjustment accrues to 2006 African supply due to developments in **Mauritania** and **Sudan,** otherwise two of the continent's brighter hopes for output growth. New production from the Thar Jath and Adar Yale fields in Sudan now looks likely to experience a slower initial build up, partly due to slow progress in developing export infrastructure. However the downward adjustment is concentrated in 2Q06 and 3Q06, tapering off thereafter. Production data for first half 2006 from Woodside Petroleum for its newly started Chinguetti project offshore Mauritania reflects disappointing reservoir performance. Although new wells in late 2006 should help to boost

supply, company expectations for 2007 production of 50-60 kb/d are lower than this report's prior estimate of 75 kb/d. In all, African supply is revised down by 55 kb/d, but by only 5 kb/d for 2007.

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	2007	06 v 05	07 v 06	2005	2006	2007	06 v 05	07 v 06	2005	2006	2007	06 v 05	07 v 06
North America	14.09	14.30	14.56	0.21	0.26	14.09	14.16	14.46	0.07	0.30	0.00	-0.14	-0.10	-0.14	0.04
Europe	5.61	5.38	5.36	-0.22	-0.02	5.61	5.36	5.39	-0.24	0.02	0.00	-0.02	0.02	-0.02	0.04
Pacific	0.58	0.54	0.62	-0.05	0.09	0.58	0.55	0.63	-0.04	0.08	0.00	0.01	0.01	0.01	0.00
Total OECD	**20.28**	**20.22**	**20.54**	**-0.06**	**0.32**	**20.28**	**20.07**	**20.47**	**-0.21**	**0.41**	**0.00**	**-0.15**	**-0.07**	**-0.15**	**0.08**
Former USSR	11.64	12.09	12.61	0.45	0.52	11.64	12.08	12.60	0.44	0.53	0.00	-0.02	-0.01	-0.02	0.01
Europe	0.16	0.15	0.13	-0.01	-0.01	0.16	0.15	0.13	-0.01	-0.01	0.00	0.00	0.00	0.00	0.00
China	3.62	3.70	3.73	0.09	0.03	3.62	3.71	3.75	0.10	0.03	0.00	0.01	0.01	0.01	0.00
Other Asia	2.67	2.72	2.75	0.06	0.02	2.68	2.73	2.76	0.04	0.04	0.02	0.00	0.02	-0.02	0.02
Latin America	4.30	4.47	4.72	0.17	0.25	4.30	4.50	4.77	0.20	0.27	0.00	0.03	0.05	0.03	0.02
Middle East	1.86	1.80	1.75	-0.06	-0.05	1.86	1.76	1.72	-0.10	-0.04	0.00	-0.04	-0.03	-0.04	0.01
Africa	3.67	4.10	4.60	0.43	0.49	3.72	4.05	4.59	0.33	0.54	0.04	-0.06	-0.01	-0.10	0.05
Total Non-OECD	**27.92**	**29.04**	**30.29**	**1.13**	**1.25**	**27.97**	**28.97**	**30.33**	**1.00**	**1.35**	**0.06**	**-0.07**	**0.03**	**-0.13**	**0.10**
Processing Gains	1.86	1.90	1.92	0.04	0.02	1.86	1.90	1.92	0.04	0.02	0.00	0.00	0.00	0.00	0.00
Other Biofuels	0.12	0.15	0.26	0.04	0.11	0.12	0.15	0.26	0.04	0.11	0.00	0.00	0.00	0.00	0.00
Total Non-OPEC	**50.17**	**51.31**	**53.01**	**1.14**	**1.70**	**50.23**	**51.10**	**52.98**	**0.86**	**1.89**	**0.06**	**-0.22**	**-0.03**	**-0.28**	**0.19**

OMR = Oil Market Report

Elsewhere, upward adjustments to 2007 production of 15-20 kb/d each accrue to **China** (stronger than expected Daqing production), **Thailand** (new condensate supplies), and to **Argentina** and **Brazil** after stronger than expected second quarter 2006 performance, all of these being carried through the forecast to 2007.

OECD STOCKS

Summary

- **OECD total industry oil stocks** were unchanged in June as draws in crude and other oils stocks were offset by increasing product inventories. Crude oil inventories fell by 17 mb with declines in all regions as increasing refinery throughputs led to higher overall crude demand. Total OECD product stocks built by 19 mb, the increase centred on the US. Days of forward demand cover came to 54 days for the OECD as a whole, on par with last month and one day above last year. Total stock build for the second quarter came to 0.74 mb/d, or 67 mb. This is slightly lower than the historical 2Q average stock build.

Preliminary Industry Stock Change in June 2006 and Second Quarter 2006

(million barrels per day)

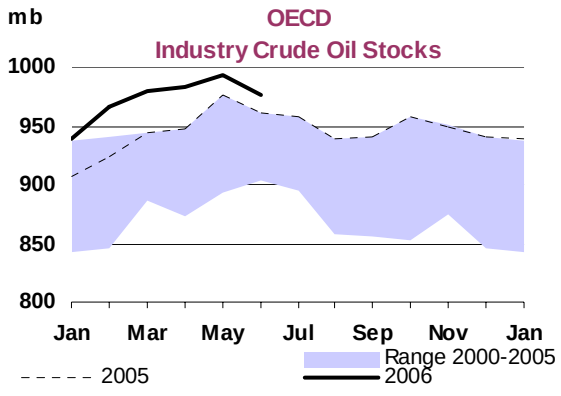
	June (preliminary)				*Second Quarter 2006*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.22**	**-0.22**	**-0.11**	**-0.55**	**-0.09**	**-0.07**	**0.13**	**-0.04**
Gasoline	0.08	-0.10	-0.04	-0.06	0.03	-0.10	-0.01	-0.08
Distillates	0.19	-0.11	0.07	0.15	0.08	0.08	0.10	0.26
Residual Fuel Oil	0.08	0.05	-0.04	0.08	0.02	0.05	0.04	0.11
Other Products	0.41	-0.02	0.06	0.45	0.39	0.01	0.02	0.42
Total Products	**0.77**	**-0.18**	**0.05**	**0.63**	**0.52**	**0.04**	**0.16**	**0.71**
Other Oils[1]	-0.03	-0.03	-0.03	-0.09	0.07	-0.03	0.02	0.06
Total Oil	**0.52**	**-0.44**	**-0.09**	**0.00**	**0.50**	**-0.06**	**0.30**	**0.74**

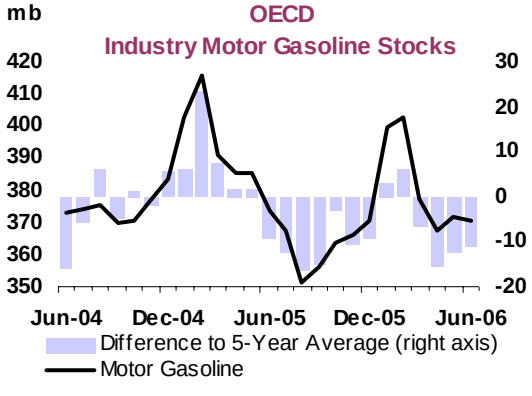
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude stocks** fell by 17 mb in June to 977 mb, some 16 mb higher than last year. The stock draw came in all OECD regions, as the return of refineries from maintenance in the US, Japan and Europe generally increased crude demand. Only in Korea were runs lower due to maintenance. At the same time, crude supplies were tighter with continued outages in Nigeria, field maintenance in the North Sea and lower Saudi volumes. Crude futures prices remained in contango in June on both the ICE and NYMEX, encouraging storage.

- **OECD industry gasoline stocks** fell by only 2 mb in June to 370 mb, or 3 mb below last year. US gasoline stocks moved higher as recovering domestic supplies were augmented by continued high imports. European gasoline stocks fell despite increased refinery output and structurally weaker demand as surplus supplies were shipped out of the region. In the Pacific, stocks were down slightly on maintenance-reduced refinery output. In July, US-50 gasoline stocks moved lower following a spate of unscheduled refinery glitches and strong seasonal driving demand. ARA stocks also fell in July as shipments to the US continued apace.

- **OECD industry distillate stocks** built by 5 mb in June to 525 mb as increases in North America and the Pacific were only partly offset by declines in Europe. The builds came largely in the US and, to a lesser degree, Japan, where heating fuel stocks continued to build seasonally. In Europe, stocks fell following high inland deliveries of diesel in France and consumer stockpiling of heating oil in Germany. The persistence of the contango on ICE Gasoil and NYMEX Heating Oil futures continued to provide incentives to store product.



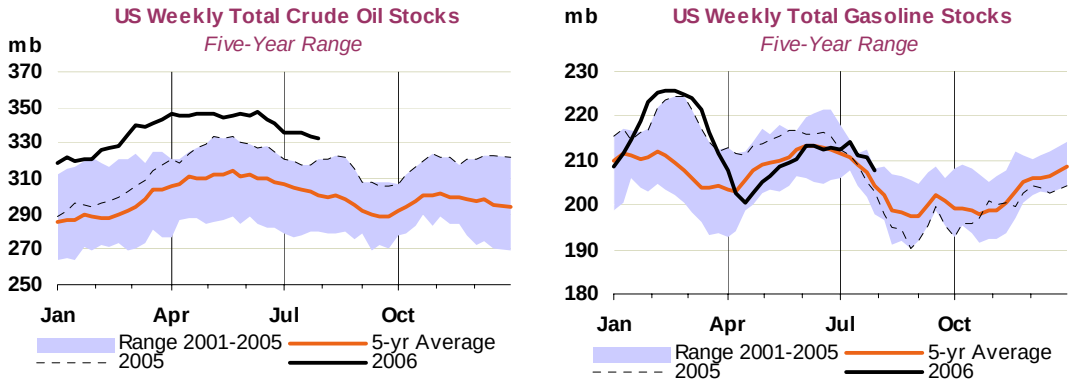


OECD Industry Stock Changes in June 2006

OECD North America

North American crude stocks fell by 7 mb in June to 455 mb, or 8 mb higher than last year. The stock draw came mostly in the US where higher refinery runs increased crude demand, was partly mitigated by high imports (in turn supported by a widening WTI/Brent differential) averaging close to 10.7 mb/d. In July and into August, weekly data show US-50 crude stocks continued to fall (-8.7 mb) despite lower-than-expected refinery throughputs. Runs averaged only 15.7 mb/d, 300 kb/d lower than in June, due to a spate of unscheduled outages. Offsetting the lower refinery runs, crude imports also fell by a similar amount, averaging 10.3 mb/d. Towards the end of July, domestic crude production also slowed to its lowest level since January due to temporary maintenance on the Trans-Alaska Pipeline System (TAPS). The closure of the 400 kb/d ANS Prudhoe Bay field on 7 August will take several weeks to tighten the US West Coast (PADD 5) market as available industry crude stocks and oil in transit from Alaska should give refiners enough time to secure alternative import supplies. In the week ending 4 August, crude stocks in PADD 5 stood at 53.8 mb, 2 mb above last year and 1 mb above their five-year average. In addition, the US has offered oil from the SPR, while recently-cut Saudi output could also act as an offset to lost volumes.

Crude inventories in the Midwest (PADD 2) bucked the national trend in July, rising to their highest level since July 1999. The stock build was due to exceptionally low refinery throughputs in the Midwest, where ConocoPhillips's 306 kb/d Wood River refinery has been shut since July 19 due to a power failure. Stocks at Cushing, the delivery point for the NYMEX WTI contract, also continued to build in July, peaking at 25.6 mb, the highest level since the beginning of the series (April 2004) at the end of July. The contango on NYMEX WTI futures peaked at over $2/bbl in mid-July as a consequence, before falling back to a little more than $1/bbl in the latter part of the month.



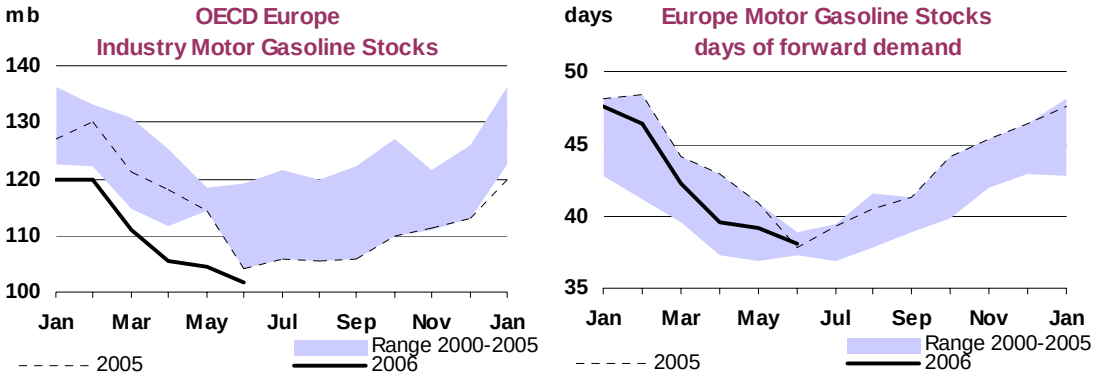
North American product stocks built by 23 mb in June to 683 mb, or 5 mb higher than last year. The build came in the US, where gasoline stocks rose by 3 mb, middle distillates by 6 mb and other products by 12 mb. Most of the other products increase came in propane/propylene stocks, in line with seasonal trends. The US stock builds followed higher refinery throughputs and came despite generally lower imports. Gasoline imports averaged 1.2 mb/d in June, about 300 kb/d lower than in May, but were still 120 kb/d above the same period last year. Ultra-low-sulphur diesel (ULSD) stocks built by close to 12 mb, reaching 22 mb in June as terminals and retailers continued to turn over tanks preparing for the new sulphur regulations. Heating oil built by 6 mb, in line with seasonal trends.

In July, US-50 product stocks continued to build, adding almost 20 mb. Again, the largest increase came in other products, these building by 18 mb. Total distillates added another 5 mb, as heating oil continued to build in line with seasonal trends, while a 10 mb rise in ULSD offset a draw of the same magnitude in regular diesel. Gasoline inventories bucked the trend and fell by 5 mb over the month, due to lower refinery output and seasonally strong demand, while imports held flat from the previous month.

OECD Europe

Crude oil inventories in Europe fell by 7 mb in June to 339 mb, or 2 mb above last year. The draw was largely centred in the UK (-3.7 mb) and Norway (-4.7 mb), as North Sea field maintenance reduced supplies. In addition, lower competing Nigerian supplies led to increased exports of North Sea grades to the US. In Europe, crude throughputs continued to increase as refiners exited maintenance and healthy refinery (cracking) margins supported runs. Only in the Netherlands were runs still reduced due to continued outages at Shell's Rotterdam Pernis refinery.

European product stocks fell by 6 mb in June, with draws in France, the UK and other EU partly offset by increases in Italy and the Netherlands. Gasoline and middle distillate inventories fell by 3 mb each. Preliminary data show strong inland deliveries of gasoil for main consuming countries in



June. Germany, in particular, showed sharp increases in heating oil deliveries, although the increase was possible a one-off spike and related to consumer stock building. German consumer heating oil stocks stood at 50.5% of capacity at the end of June, up from 47% at the end of May and 46% in June last year. In France, diesel deliveries also posted strong gains, leading to a 5 mb draw in French distillate stocks despite increased refinery output. Total European gasoline stocks were 2 mb below last year's position and their five-year range at the end of June, but due to structurally weaker gasoline demand, they remain in the middle of their narrow historical range on a forward demand basis.

OECD Pacific

In the Pacific, crude oil stocks fell by 3 mb in June, as a stock draw in Japan was partly offset by increasing Korean inventories. Korean crude stocks built by 3 mb in June as scheduled maintenance reached its seasonal peak. Sharply lower crude imports limited the stock build by mirroring the drop in crude demand. In Japan, stocks fell by 6 mb as refinery throughputs increased sharply over the month from the maintenance-reduced lows of end-May/early June. Weekly data from the Petroleum Association of Japan (PAJ) show that in July throughputs continued to increase while onshore crude stocks trended sideways.

Pacific product inventories nudged higher by about 1 mb in June to 182 mb or 9 mb above last year. Japanese product stocks rose by more than 2 mb as refineries returned from maintenance. The increase stemmed mostly from middle distillates, as exceptionally weak inland deliveries of both kerosene and gasoil led to surplus supplies. Weekly data from PAJ show distillate stocks continued to increase in July, largely in line with seasonal trends. In Korea, product stocks fell by only 1 mb despite reduced refinery production. Inland deliveries were weak for all products bar LPG, naphtha and diesel. Lower net product exports also helped offset lower refinery output.

OECD Inventory Position at End-June and Revisions to Preliminary Data

Total OECD industry oil inventories were unchanged in June at 2,664 mb, or 39 mb higher than last year. Stocks held above last year's level for both crude and products for all regions. Days of forward demand cover came to 54 days for the OECD as a whole, on par with last month and 1 day above last year. Regionally, Europe and the Pacific trend about 1 day higher than last year, while North America is on par with June 2005 in terms of demand cover. The total stock build for the second quarter came to 0.74 mb/d, or 67 mb. This is slightly lower than historical 2Q stock builds (0.88 mb/d five-year average).

Year-on-Year OECD Industry Stock Comparisons for June 2006

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**7.7**	**2.0**	**5.9**	**15.7**	**Total Oil**	**-0.4**	**1.4**	**0.5**	**0.2**
Total Products	5.1	12.4	8.8	26.4	*Versus 2004*	2.6	0.8	1.1	1.7
Other Oils[1]	-3.2	1.2	-1.3	-3.3	*Versus 2003*	1.5	2.1	-4.7	0.6
Total Oil	**9.7**	**15.6**	**13.4**	**38.7**	**Total Products**	**-0.2**	**1.0**	**0.6**	**0.2**
Versus 2004	90.9	11.5	16.0	118.3	*Versus 2004*	1.6	0.7	0.8	1.1
Versus 2003	98.7	30.9	-16.8	112.7	*Versus 2003*	0.5	1.0	-2.1	0.1

1 includes feedstocks, NGLs and other hydrocarbons

Revisions versus 12 July 2006 Oil Market Report
(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Apr 06	May 06	Apr 06	May 06	Apr 06	May 06	Apr 06	May 06
Crude Oil	**-1.7**	**-11.7**	**-2.9**	**0.2**	**-0.5**	**2.4**	**-5.0**	**-9.1**
Gasoline	0.0	-0.6	-1.4	-1.2	-0.9	-1.1	-2.3	-2.8
Distillates	0.0	-0.1	-1.0	-2.9	-0.7	-0.6	-1.8	-3.6
Residual Fuel Oil	0.0	0.8	0.0	-1.5	0.0	-0.6	0.0	-1.3
Other Products	0.0	-1.0	-0.7	0.1	0.0	0.1	-0.7	-0.8
Total Products	**0.0**	**-1.0**	**-3.1**	**-5.5**	**-1.7**	**-2.1**	**-4.8**	**-8.6**
Other Oils[1]	1.2	7.8	1.2	0.4	-0.2	0.5	2.2	8.8
Total Oil	**-0.5**	**-4.9**	**-4.8**	**-4.9**	**-2.4**	**0.9**	**-7.7**	**-8.9**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

Preliminary May stock data for OECD countries were revised down by 9 mb. Downward revisions to crude and main product categories were partly offset by an upward revision to 'other oils' (mostly US). North American crude stocks were reported 12 mb lower than preliminary estimates, the difference seen in both US and Canada. European crude stocks were unchanged from last month's report, while product inventories were, on aggregate, revised down by 6 mb. Preliminary data for the Pacific remained relatively unchanged with offsetting changes reported for crude and products. Preliminary April data were also revised down by 8 mb, with most of the change attributable to 'other EU' countries.

Recent Developments in ARA Independent Storage

Total product stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area built in July as all products bar gasoline saw increases. Gasoline stocks fell as surplus material was shipped mainly to the US, but also to Mexico, Iran, Israel, Nigeria, the UAE and South Africa. Supplies were also reduced by continued problems at Shell's Pernis refinery. The backwardation on NWE swap gasoline prices widened in July further encouraging moving product out of storage.

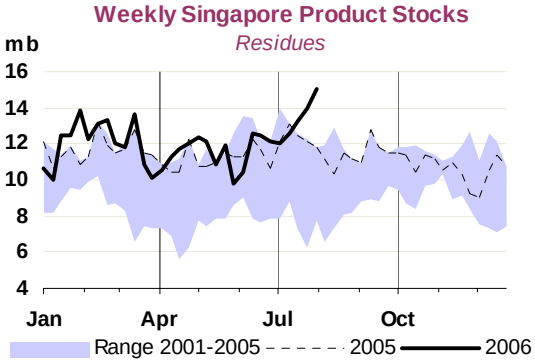
Gasoil stocks trended higher in July amid thin local demand and ample regional supplies. Imports of Russian gasoil from Baltic ports as well as 50-ppm material from the US helped increase ARA stock levels. As Asian refiners exited maintenance, surplus gasoil was shipped from Northeast Asia to Northwest Europe, further adding to supplies. The contango on ICE Gasoil futures for August/September was particularly wide, encouraging traders to store product.

Fuel oil inventories continued to trend at high levels in July as Russian material flowed into ARA tanks and arbitrage opportunities to Asia were limited. The prompt high-sulphur fuel oil barge crack versus North Sea Brent slid to new record lows in July amid thin Asian demand and despite bookings of several VLCCs and 100,000-tonne cargoes to Singapore. Over the latter part of the month, an increase in scheduled loadings looked set to soak up some of the region's surplus barrels of fuel oil.

Recent Developments in Singapore Stocks

Singapore product inventories, as surveyed by International Enterprise, moved higher in July with increases to light distillates and residues offsetting draws in middle distillate stocks. Light distillates stocks, including gasoline and naphtha, moved higher despite increased Indonesian purchases and importers covering requirements amid increasing Middle East tensions. Chinese exports of gasoline were also lower as PetroChina skipped exports for a second month in a row in the face of strong domestic demand and the outage at a gasoline-making unit at its 200 kb/d Lanzhou refinery.

After falling sharply in the first week, middle distillate stocks trended sideways in July. Exports from Korea rebounded as refiners ended maintenance programmes. Indonesian gasoil demand remained firm due to problems at Pertamina's 120 kb/d Dumai refinery. Gasoil swaps were in backwardation for July/August, encouraging the drawdown of stocks.

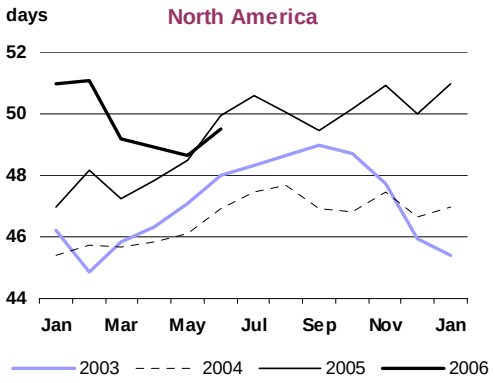


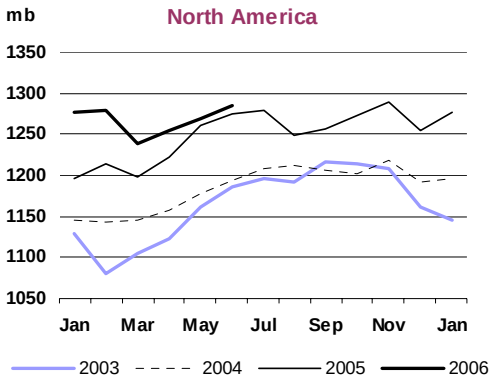
Fuel oil stocks rose to their highest levels on record (series start in 1998) due to heavy arrivals of Western and Indian material and a lack of Chinese buying. At the end of the month, reports indicated additional fuel oil cargoes were forced to wait in Singapore harbour to unload as storage space was reportedly at full capacity.

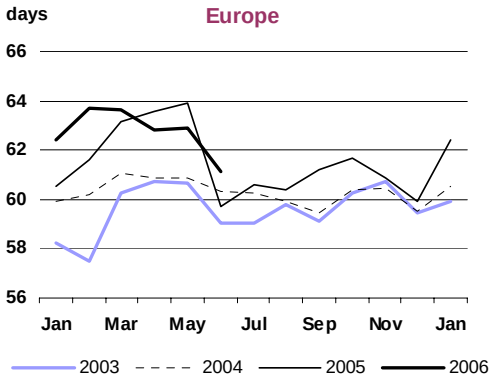
Regional OECD End-of-Month Industry Stocks

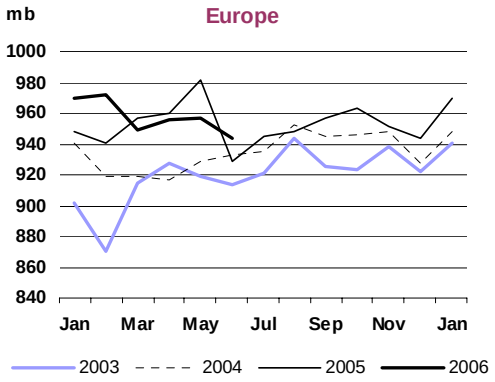
(in days of forward demand and millions barrels of total oil)

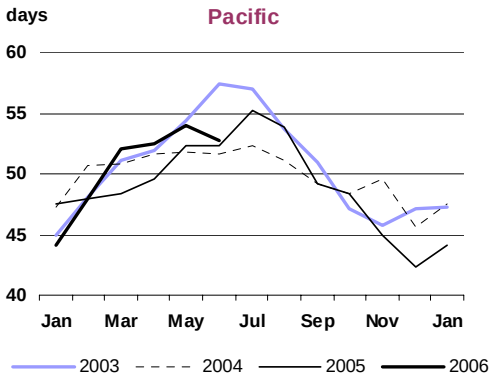
Days[1] **Million Barrels**

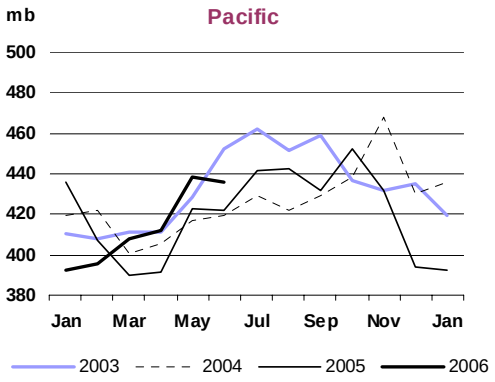


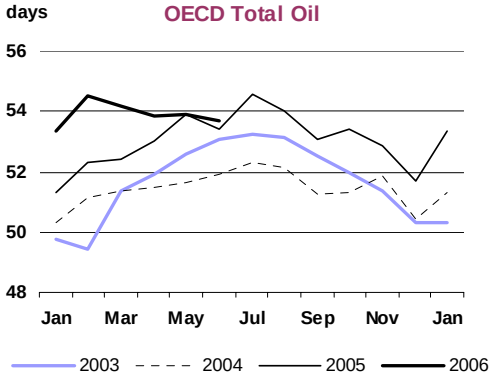


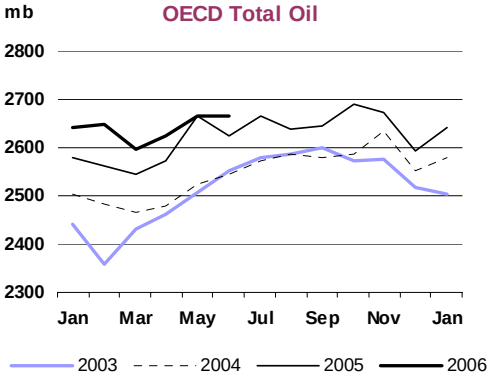












1 Days of forward demand are based on average demand over the next three months

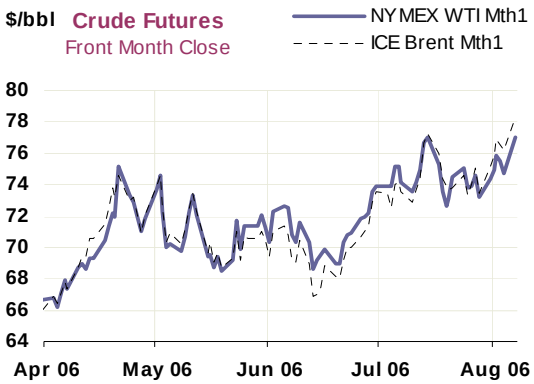
PRICES

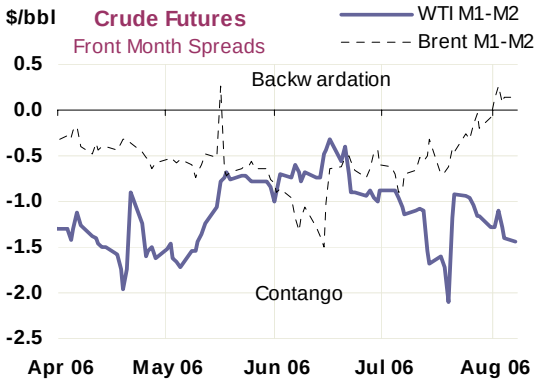
Summary

- **Benchmark ICE Brent** closed at a new record high of $78.30/bbl on 7 August, after BP was forced to fully shut down its Alaskan Prudhoe Bay field to repair pipeline infrastructure. Pipeline problems increased outages in Nigeria, now totalling around 750 kb/d. Combined with expanded August maintenance in the North Sea, this increased prices for gasoline-rich crudes.
- **NYMEX WTI** and ICE Brent had already reached nominal closing highs in mid-July when fighting erupted in Lebanon. Geopolitical worries over Iran, Iraq and the wider Middle East continue to underpin prices.
- **Gasoline**, particularly in the US, remained the market driver for product prices. US summer demand remained strong despite retail prices breaching $3/gl.
- **Fuel oil**'s weakness due to increasing supplies and mostly feeble utility demand hampered gains for fuel-oil-rich crudes.
- **Jet fuel** cracks as a trend outperformed those of other distillates in Europe and Asia on strong summer demand, though not in the US, where diesel and heating oil made stronger gains.
- **Freight rates**, particularly for crude, rebounded in July. Costs on the benchmark VLCC route from the Middle East to the US rose to near five-year highs in July from near five-year lows in April. Sustained product imports into the US supported transatlantic clean rates.

Oil Futures Prices

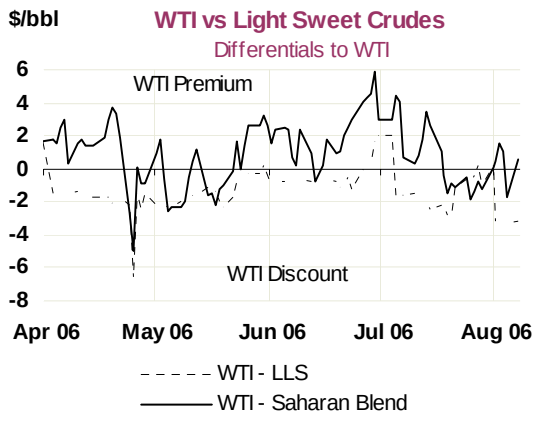
After hitting a record high when the Lebanon crisis erupted, ICE Brent cooled briefly before reaching a new closing record of $78.30/bbl following the shuttering of production at BP's Prudhoe Bay field. Further outages in Nigeria are lending support, as is the ongoing turmoil in the Middle East. Fears remain that crude supplies in oil-producing countries could eventually be affected – directly or indirectly – by a spread of the violence in Lebanon/Israel/Palestine. Concerning Iran, the UN Security Council on 31 July passed a resolution demanding a suspension of uranium enrichment activities by 31 August. However, to date there is little indication that Iran will comply, ratcheting up fears that crude exports may be disrupted in the future. Iran has indicated several times that it may use oil in its response if sanctions are imposed.

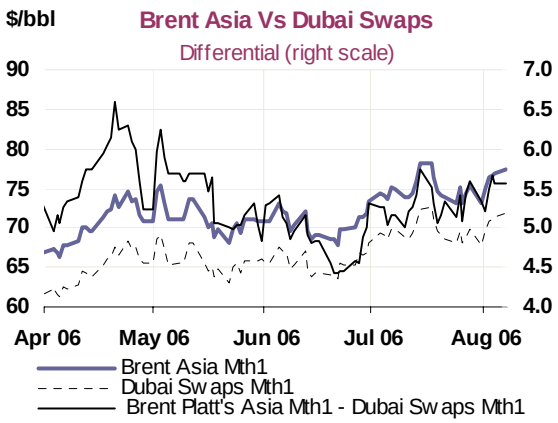




ICE Brent and NYMEX WTI jumped by over $2/bbl on the announcement that BP was shutting its 400 kb/d Prudhoe Bay field in Alaska. While the shortfall accounts for a fifth of global spare capacity, the output loss was to a degree mitigated by the offer made by the US to make SPR crude available and indications by OPEC that it had capacity to offset the outage. Theoretically, the outages could largely be compensated for by Saudi Arabian grades Arab Light and Arab Medium. The kingdom recently cut crude output – including both of these grades – by 400 kb/d, citing difficulties in finding buyers for its oil.

Meanwhile, apparently undeterred US demand for gasoline, coupled with the first taste of what the hurricane season could bring to the US Gulf of Mexico, underlined tightness in the product market. Tropical Storm Chris briefly threatened to reach hurricane status before fading to a tropical depression, but nevertheless reminded markets of last year's severe damage wrought by Hurricanes Katrina and Rita. Arguably, in the current market environment, losses to refinery capacity would be as, if not more, troublesome for the oil price than losses to crude output.





As much as 750 kb/d of crude output was offline in Nigeria in early August, following ongoing unrest and problems with a pipeline operated by Shell. This continues to put pressure on the light sweet market. Adding to this tightness is the prospect of August North Sea crude loadings being curtailed by perhaps 100-200 kb/d compared to July due to maintenance, as well as strong seasonal demand. As a result, ICE Brent has risen to a premium over NYMEX WTI since late July, and on 1 August swung back into backwardation for the first time since mid-May. Due to the scramble for alternative high-gasoline-yield crudes to Nigerian grades, particularly by US refiners, prices for the two benchmark crude future contracts, as well as other light sweets, are likely to remain strong.

Product futures were mixed over the last four weeks, with both distillate contracts rising, while NYMEX Unleaded and RBOB both remained more or less steady. The front-month spread of NYMEX Unleaded widened in early August, reflecting the coming change to cheaper winter-specification material from October. Heating Oil's crack to NYMEX WTI also gained strength from the approaching seasonal rise in winter fuel demand. Early in August the spread between the October Unleaded and Heating Oil contracts was already showing a slight premium for the latter. The Henry Hub Natural Gas contract also made gains as a heatwave spread from the US West Coast to the East, despite stocks being 14% above the five-year average.

Spot Crude Oil Prices

Besides the political, headline-driven news, global crude differentials were most affected by the Nigerian outages and prospects of a lower North Sea programme for August. Gasoline-rich grades profited more than other crudes, showing some of the strongest gains since late July. In particular US refiners boosted prices for light sweets as they sought to maximise gasoline output at the height of the driving season. As a result, Light Louisiana Sweet rose to a healthy premium over physical WTI. The latter's gains were also in check due to unusually high crude stocks at Cushing, Oklahoma throughout July. Despite its spot premium over WTI, Brent and similar grades were still reportedly crossing the Atlantic on high refining margins, with the net product worth from cracking Brent remaining higher than for LLS. Physical Brent also gained over Saharan Blend and Azeri Light, two crudes increasingly popular with US refiners as alternatives to Nigerian barrels. Growing volumes of Azeri Light through the Baku-Tbilisi-Ceyhan (BTC) pipeline are likely to pressure light sweet crude premiums in the Mediterranean.

The other single most significant factor affecting crude prices was the sustained weakness of fuel oil cracks. This kept heavy sours, especially from the Middle East, under pressure. Some demand for crudes east of Suez came from high Brent/Dubai spreads above $5/bbl, giving medium sour Middle Eastern grades in particular a bit of support. But this was outweighed by fuel oil's weakness, pressuring, for example, Oman. By contrast, distillate-rich Murban and similar grades saw greater gains due to interest from Asia-Pacific refiners. Despite its apparent lack of arbitrage options, Urals NWE gained against Urals Med due to a Druzhba branch pipeline shutdown following an announced leak. This cut supplies to Lithuania's Mazeikiu refinery and the neighbouring Butinge terminal. There was speculation that the reduction in the north was a deliberate response to PKN Orlen's proposed takeover of the refinery as opposed to a Russian company. Russian loading schedules indicated increased August volumes from Black Sea ports in compensation. The fourth Kirkuk tender from Turkish Ceyhan was cancelled, meaning the last barrels were loaded from storage there on 10 July.

Spot Crude Oil Prices and Differentials

(monthly and weekly averages, $/bbl)

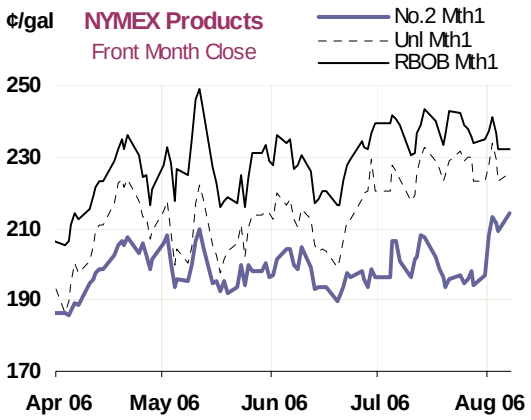
	May	Jun	Jul	Jul-Jun Avg Change	%	Week Commencing: 10 Jul	17 Jul	24 Jul	31 Jul	07 Aug
Crudes										
Dated Brent	69.83	68.69	73.66	4.97	7.2	74.02	73.36	73.70	76.35	78.12
Brent (Asia) Mth1 adjusted	71.17	70.47	74.78	4.31	6.1	75.26	75.48	74.22	75.58	77.50
WTI (Cushing) Mth1 adjusted	70.92	70.88	74.38	3.51	4.9	75.17	73.84	73.91	75.12	76.95
Urals (Northwest Europe)	64.98	64.34	69.19	4.85	7.5	69.88	69.48	69.05	71.24	73.50
Urals (Mediterranean)	65.08	64.51	69.20	4.69	7.3	70.29	69.04	68.74	70.67	72.55
Dubai Mth1 adjusted	65.00	65.22	69.17	3.95	6.0	69.60	69.90	68.60	69.77	71.49
Dubai Swaps Mth1 adjusted	65.75	65.60	69.50	3.90	5.9	69.93	70.21	68.89	70.13	71.93
Minas (Dated)	70.35	68.49	74.13	5.64	8.2	74.36	76.20	75.19	76.92	79.21
Tapis (Dated)	74.07	73.11	78.16	5.05	6.9	78.61	79.03	78.43	79.67	81.68
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	1.09	2.19	0.72	-1.47		1.15	0.48	0.20	-1.23	-1.16
Urals (Mediterranean)	-4.75	-4.18	-4.46	-0.28		-3.73	-4.32	-4.96	-5.68	-5.57
Urals (Northwest Europe)	-4.85	-4.34	-4.47	-0.12		-4.14	-3.88	-4.65	-5.11	-4.61
Dubai Mth1 adjusted - Dated Brent	-4.83	-3.47	-4.49	-1.03		-4.42	-3.46	-5.11	-6.58	-6.63
Dubai Swaps - Brent Asia	-5.42	-4.87	-5.28	-0.41		-5.33	-5.27	-5.33	-5.45	-5.57
Tapis (Dated)	4.25	4.43	4.50	0.08		4.59	5.67	4.73	3.31	3.57
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-0.61	-0.64	-0.46	0.17		-0.58	-0.55	-0.17	-0.24	-0.16
Forward WTI Cushing Mth1-Mth2 ad	-0.94	-0.61	-1.12	-0.51		-1.26	-1.31	-0.80	-1.25	-1.35

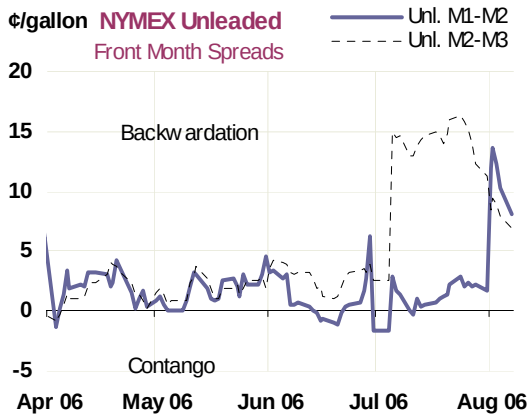
Delivered Crude Prices in May

The price of the average barrel of crude oil imported by IEA countries rose for the sixth consecutive month in May, surpassing $66/bbl. Crude imports into IEA Pacific countries cost, on average, $67.17/bbl, $4.59/bbl more in May than in April. Delivered crude prices for North American IEA countries rose by $3.84/bbl in May to $64.33/bbl, while European IEA countries experienced a price increase of 68 cents for each barrel imported, to $66.97/bbl.

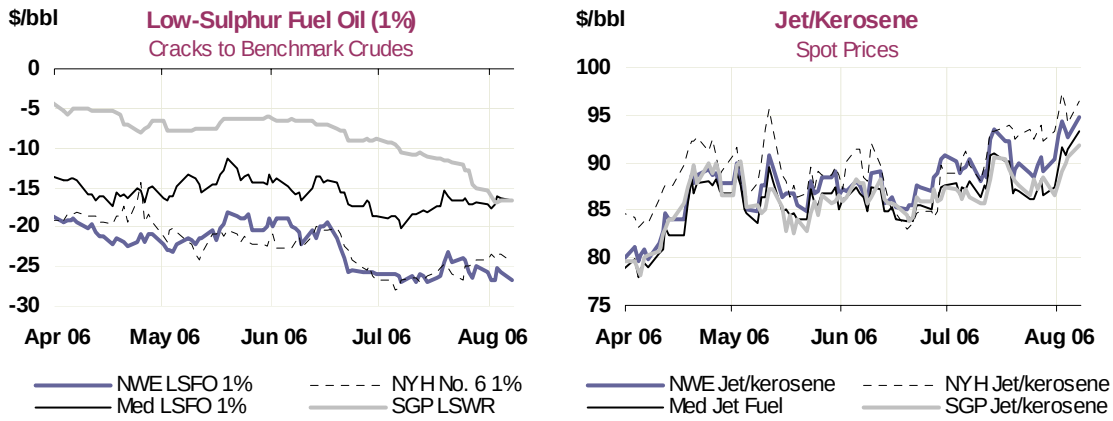
Spot Product Prices

Strong demand and perceived supply tightness meant US gasoline remained the market driver for product prices. Against this background, gasoline cracks made the strongest gains until early August. This was particularly true for the higher-octane grades, which are more difficult to produce. The latest weekly EIA report shows US gasoline demand increasing by 1.8% year-on-year. In addition, US refinery throughput is still noticeably lower than the same period one year ago, with several refinery outages in PADDs 1 and 2. At the same time, while lower-than-average stock draws in recent weeks have kept US gasoline stocks above the five-year average, forward demand cover remains marginally lower by comparison. The exception to this crack strength is the US West Coast, where crude prices outperformed gasoline on reduced ANS supply. In the US, average retail prices rose above $3/gl in late July, for only the second time ever, and for the first time since the severe disruptions caused by hurricanes almost one year ago. In Asia, gasoline drew some strength in July from reduced Chinese exports.





By contrast, fuel oil cracks to benchmark crudes were generally weak in July and early August, particularly in Asia, where the crack for high-sulphur 380cst material to Dubai fell to a record low. A glut of supply has emerged as most refineries in Europe and Asia have ended maintenance and increased throughputs, compounded by a hike in Russian exports. In Asia, the pronounced weakness can partly be explained by higher-than-expected hydro and nuclear power output, leading to lower fuel oil demand for electricity generation. As a result, Chinese imports through the Huangpu hub in July were significantly lower than in June. At the same time, residue stocks in both Singapore as well as in the ARA region were markedly above previous years. Relatively low Henry Hub natural gas prices since the beginning of 2006 due to high storage levels have also favoured fuel switching. LSWR cracks suffered too due to mild temperatures and moderate electricity demand. Leading producer Indonesia sold more LSWR onto the market due to refinery problems, while Japanese refineries are in the process of ramping up runs for the usual higher summer production, increasing fuel oil output.



Distillates cracks were unimpressive compared to those for gasoline throughout July, but picked up in early August in the US and to some degree in Asia. Jet cracks were particularly strong in Europe and Asia on healthy summer demand and given the fact that any increases in yields would cut into diesel supply. In Asia, support came from stronger-than-anticipated Chinese buying for September, which offset the closure of the arbitrage from Asia to the US. In addition, Japanese stocks were lower than average throughout July, according to weekly PAJ data, though moved higher than last year in the week ended 5 August. Strong gains for ULSD cracks to benchmark crudes were seen in the US (particularly New York Harbour), where the diesel market is still receiving support from the gradual phase-in of the new ultra-low-sulphur specifications. Product terminals and retailers have until September and mid-October respectively to comply, and the process of emptying and refilling storage tanks is ongoing. The latest four-week average data showed middle distillates demand up by 7% year-on-year.

End-User Product Prices in July

Rising light and middle distillate prices were felt by consumers in OECD countries in July. Average end-user gasoline prices rose in all OECD countries surveyed except Japan. Compared to June, July gasoline prices (in US dollar terms) rose by nearly 8% in Germany, by around 5% in France, Italy and Spain and by almost 4% in US and Canada, before tax. Shallower increases were seen in automotive diesel prices in OECD Europe and US. Average domestic heating oil prices rose by up to 2% in July in European OECD countries. In the same month, Japanese consumer prices for all petroleum products surveyed fell.

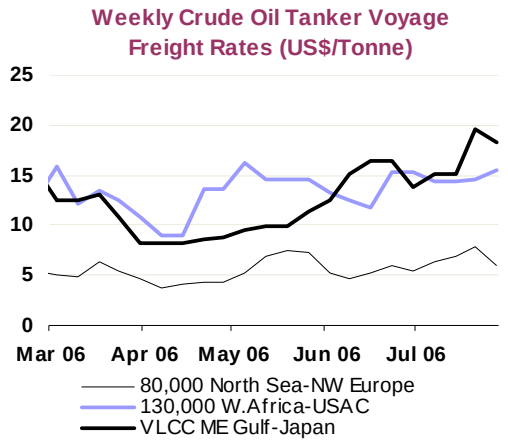
Spot Product Prices

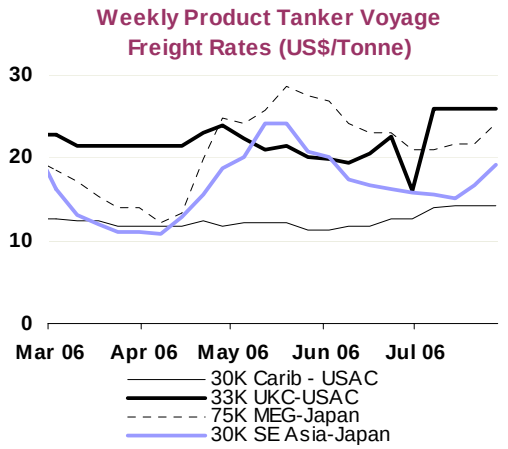
(monthly and weekly averages, $/bbl)

	May	Jun	Jul	Jul-Jun Change	Jul-Jun %	Week Commencing: 10 Jul	17 Jul	24 Jul	31 Jul	07 Aug	May	Jun	Jul
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	85.20	86.91	92.90	5.99	6.9	93.65	93.40	93.31	94.02	92.30	15.37	18.22	19.24
Unleaded	83.62	85.29	91.44	6.15	7.2	92.14	91.85	91.79	92.47	90.72	13.79	16.61	17.78
Naphtha	66.25	67.84	71.04	3.20	4.7	72.06	71.08	69.81	70.95	71.84	-3.58	-0.84	-2.62
Jet/Kerosene	87.23	87.30	89.93	2.64	3.0	90.32	90.39	89.32	92.67	95.14	17.41	18.61	16.27
Gasoil .2%	83.41	83.46	84.65	1.19	1.4	85.74	84.16	83.20	86.41	89.57	13.58	14.77	10.99
LSFO 1%	49.01	46.43	47.93	1.51	3.2	47.49	48.31	48.63	50.36	51.31	-20.82	-22.26	-25.73
HSFO 3.5%	50.18	46.50	48.78	2.29	4.9	49.06	49.95	49.17	49.62	50.80	-19.65	-22.19	-24.88
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm	84.39	84.87	91.74	6.87	8.1	92.46	92.06	92.28	92.98	91.34	19.32	20.36	22.54
Naphtha	65.40	66.99	69.73	2.73	4.1	70.98	69.71	68.13	69.48	70.77	0.33	2.48	0.53
Jet Aviation fuel	85.93	85.81	87.76	1.95	2.3	88.62	88.19	86.91	90.11	93.96	20.85	21.30	18.56
Gasoil .2%	83.65	83.40	82.58	-0.82	-1.0	83.48	81.84	81.58	85.45	88.82	18.57	18.88	13.37
LSFO 1%	50.83	48.81	51.56	2.74	5.6	52.09	52.48	51.94	53.75	56.14	-14.25	-15.70	-17.65
HSFO 3.5%	48.42	46.36	48.79	2.43	5.2	49.26	49.80	48.72	49.01	50.18	-16.66	-18.15	-20.41
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	100.03	98.73	111.10	12.36	12.5	110.64	111.68	112.62	110.49	108.57	29.11	27.86	36.72
Unleaded	86.24	86.99	94.28	7.29	8.4	92.52	93.82	96.13	99.66	94.24	15.32	16.12	19.90
Jet/Kerosene	89.05	86.98	92.15	5.17	5.9	90.93	93.27	93.09	95.19	94.85	18.13	16.11	17.77
No. 2 (Heating Oil)	82.73	80.52	80.71	0.19	0.2	81.51	79.73	80.01	84.69	86.42	11.81	9.64	6.33
LSFO 1%	49.25	48.32	48.51	0.19	0.4	48.62	48.49	48.85	51.40	52.47	-21.67	-22.56	-25.87
No. 6 3%	48.58	47.42	48.71	1.29	2.7	48.43	49.16	49.43	51.40	52.55	-22.34	-23.45	-25.67
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	86.80	82.76	85.50	2.75	3.3	85.08	86.06	85.50	87.32	88.75	21.80	17.54	16.34
Naphtha	65.59	68.06	70.55	2.49	3.7	71.56	71.30	68.96	68.33	68.88	0.59	2.84	1.38
Jet/Kerosene	85.55	86.18	87.57	1.39	1.6	87.30	88.71	87.73	88.80	92.50	20.55	20.96	18.41
Gasoil .5%	84.18	85.88	86.27	0.39	0.5	87.20	86.42	85.14	86.18	88.54	19.18	20.66	17.11
LSWR Cracked	58.04	57.68	57.59	-0.09	-0.2	58.81	58.40	55.09	53.41	54.95	-6.96	-7.55	-11.58
HSFO 180 CST	53.73	50.72	53.53	2.81	5.5	53.77	54.65	53.16	53.31	54.73	-11.27	-14.50	-15.64
HSFO 380 CST 4%	53.79	50.80	53.16	2.37	4.7	53.43	53.96	52.65	52.58	53.50	-11.21	-14.42	-16.00

Freight

Reduced vessel availability and firm interest in August-loading VLCCs pushed dirty freight rates towards multi-year seasonal peaks in July. This extended the upward trend in dirty rates to a fourth month. Tanker demand was sustained by Asian refineries returning from maintenance and US refineries addressing summer gasoline demand. With Arabian Gulf vessel availability dented by high numbers of sailings in June and July, suitable August-loading vessels were at a premium and dirty freight rates surged above June peaks in the second half of July. Above-average freight rates in an environment of healthy fleet additions continue to underline the growth in seaborne oil trade.





VLCC rates from the Middle East to Japan climbed to WS135 (over $20/tonne) on 21 July which came close to the record July Worldscale levels seen in 2004. This capped a steady rise from under

$14/tonne in early July. With Asian refinery maintenance now winding down, eastbound vessel interest rose as Japanese refiners, in particular, sought transportation for crude cargoes to be loaded in August. Steady demand for tankers heading from the Middle East to the US supported westbound VLCC freight rates in July as well. VLCC rates have now risen from near five-year lows in April to near five-year highs in June and July. VLCC rates from the Arabian Gulf corrected downwards in early August, particularly for Eastern routes, as charterers increasingly covered transportation requirements for the month.

Middle Eastern freight rates appeared unaffected by the slow release of 12 mb of Iranian heavy, sour crude from storage in tankers in June and July. Some oil was sold at a discount to Shell and Indian refiners, having previously failed to find buyers, though much of it was also taken in by Iranian refiners themselves.

With major maintenance planned for North Sea production facilities in August and Nigerian supply problems worsening, US buyers turned to Mediterranean sources of light, sweet crude. Suezmax rates in the Atlantic basin breached $24/tonne for West Africa to US Atlantic trades on 25 July, having risen from under $18/tonne earlier in the month. VLCC rates for the same route remained near the top of the five-year range, around $15/tonne, for most of July. Caribbean Aframax costs decreased in July due to high US inventories and export problems in Venezuela.

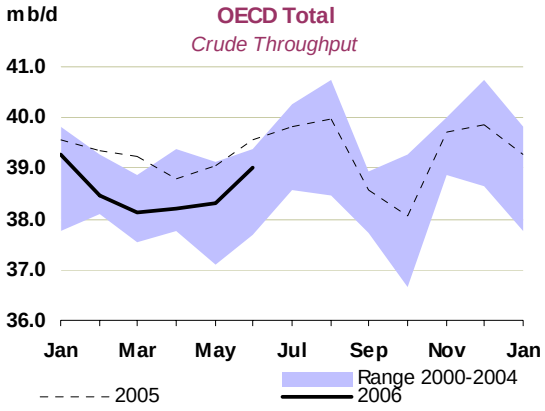
Shut-in production at Prudhoe Bay in Alaska is likely to lend widespread support to crude freight rates in August. BP has already announced that VLCCs, Suezmaxes and smaller vessels are being chartered to bring in crude from the Caribbean, the Atlantic basin and the Arabian Gulf to replace lost Alaskan supplies.

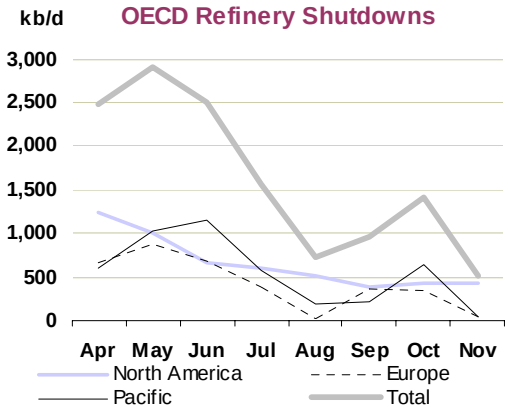
Eastbound charter rates for clean cargoes rebounded from June's reduced rates following firmer product demand in Asia. Freight rates for 75,000-tonne naphtha exports from Arabian Gulf to Japan rose by $4/tonne to nearly $25/tonne in the last ten days of July, despite increased naphtha output from India and ongoing Asian naphtha cracker maintenance. Low gasoline stocks and a jet fuel contango (encouraging pre-winter stock building) supported clean rates from Singapore to Japan for 30,000-tonne cargoes. Rates for this trade gained $2/tonne in the second half of July to reach $17/tonne. Transatlantic clean rates remained high on sustained US demand for imports of gasoline, blending components and middle distillates.

REFINING

Summary

- **Full cost refining margins** were generally weaker in July as increasing crude runs boosted supplies to product markets. Nevertheless, margins remain at historically high levels for complex refineries, although high throughput levels have increased fuel oil supplies, putting pressure on hydroskimming returns.
- **US Refining margins** on the Gulf Coast fell in July for light sweet crudes, as supply disruptions in Nigeria and North Sea maintenance increased crude price differentials. Sour crude margins improved as gains in sour crude prices were restrained by weak fuel oil cracks. US West Coast margins fell as disruptions to ANS supplies tightened regional crude markets and Asian imports eased tight product markets.





- **European refining margins** declined across-the-board. The open gasoline arbitrage to the US offered some support to gasoline cracks, but these still weakened. Other product cracks witnessed greater declines as refineries returned from maintenance in the Mediterranean, with gasoil cracks falling over $5/bbl, due to restricted hydrotreating capacity. This weakness, in combination with deteriorating fuel oil cracks, cut margins. Dubai hydrocracking margins in Singapore averaged $2.06/bbl, down $2.47/bbl, as rising imports of naphtha, gasoil and fuel oil undermined refinery margins.
- **OECD crude throughputs** continued to increase in June as refiners exited Atlantic Basin maintenance and Pacific region maintenance increased only slightly. Crude runs increased by 806 kb/d to average 39.13 mb/d in June but remained some 437 kb/d below June 2005 levels, with the US accounting for the majority of the year-on-year shortfall. Weekly data point to lower US throughputs in July, as widespread refinery problems curtailed runs, while Japanese runs moved higher as refiners exited maintenance periods.
- **Offline OECD refinery capacity** estimates have been revised slightly to 2.5 mb/d for June from last month's estimate of 2.4 mb/d. We have also revised up our estimate for May to 2.9 mb/d from 2.8 mb/d, confirming it as the peak month for offline OECD capacity for 2006 (barring a repeat of last year's hurricane related US disruptions). Global offline capacity peaked in March at just under 4 mb/d, although revisions to May and June data suggest that the recovery in crude runs over the second quarter has been far less than originally anticipated.

Refining Margins

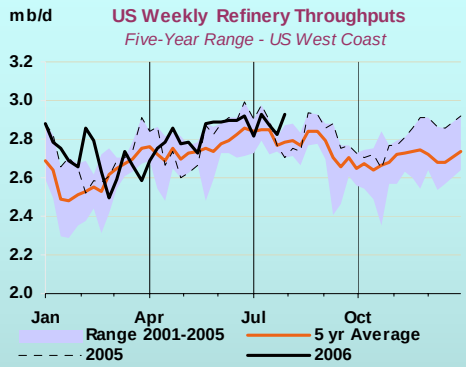
OECD North America

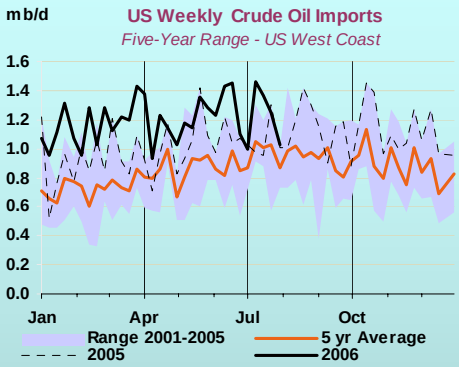
West Coast margins in July continued to ease from the record levels seen in the second quarter, pressured on three fronts. Domestic product output was bolstered by a reduction in unplanned refinery downtime, product imports from Asia boosted product supplies and ANS crude supplies tightened. Despite this easing, margins remain at healthy levels, well above the 12 month and 2005 average.

ExxonMobil's shutdown of the 100 kb/d fluid catalytic cracking unit (FCC) at its Torrance refinery near Los Angeles appeared to be the only significant maintenance activity, although the heatwave that affected the region for part of the month reportedly limited crude runs at some refineries. Consequently,

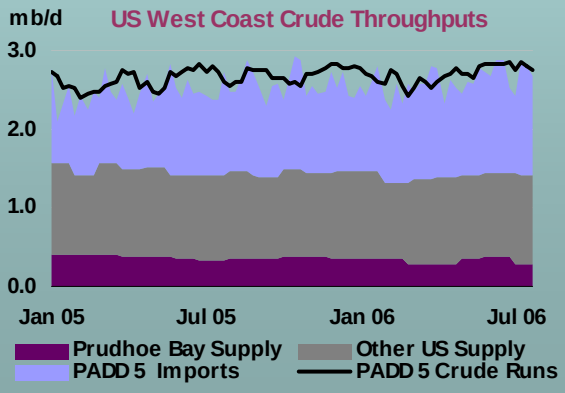
July crude throughput was above last year and the five-year average. The reduced supply of ANS, following mid-month maintenance on the TAPS pipeline, tightened local crude markets, while the arrival of product imports from Asia also helped to ease distillate cracks. Gasoil and ULSD cracks fell by around $6/bbl and jet cracks were around $3/bbl lower on average. Despite the arrival of high octane gasoline from Asia, premium unleaded gasoline cracks increased by over $2/bbl on average in July, although they remain below their May peaks.

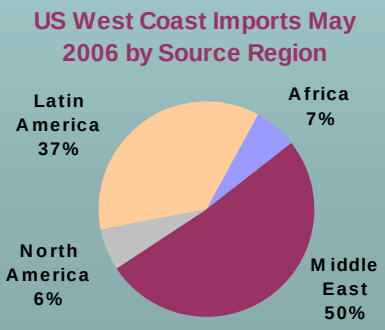
The shutdown of the Prudhoe Bay field, partial or otherwise, will force refiners to increase crude imports over the course of August and until full production is restored at Prudhoe Bay. Although the disruption follows close on the heels of the maintenance shutdown of the TAPS pipeline in mid-July, regional stocks remain above the five-year average and there is some oil in transit.





Refiners therefore have a window of opportunity to secure alternative crudes. Imports into the West Coast have accounted for approximately 45% of crude throughputs on a year-to-date basis. The most recent US data indicates that West Coast refiners are importing crude oil from Angola, Argentina, Iraq, Oman, Saudi Arabia and Yemen, amongst others. The transit time from many of these locations suggest refiners are likely to need to draw on stocks by late August if already-on-sea cargoes cannot be diverted.





US Gulf Coast margins for light sweet crudes fell in July, while those on sour grades rose. Gulf Coast product prices were supported by demand from the Mid-West following the outage at Wood River and continuing delays to the increase of runs at BP's Texas City refinery. The loss of Valero's St Charles FCC unit on July 20 boosted gasoline cracks to above $23/bbl. The unit was due to have restarted around 9 August. The outages also prompted a spike in ultra-low-sulphur diesel (ULSD) premiums in the Mid West, where it reached $0.60/gal ($25/bbl) above NYMEX heating oil futures.

Selected Refining Margins in Major Refining Centres

($/bbl)

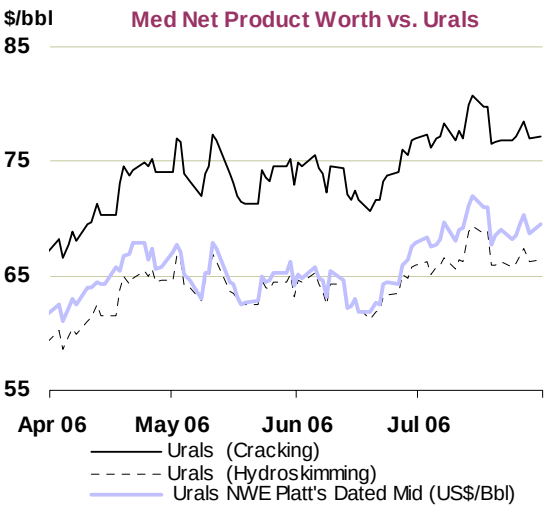
		Monthly Average			Change	Week Ending:				
		May 06	Jun 06	Jul 06	Jul 06-Jun 06	30 Jun	07 Jul	14 Jul	21 Jul	28 Jul
NW Europe	Brent (Cracking)	6.14	7.55	6.49	-1.06	6.29	6.41	6.95	6.78	6.14
	Urals (Cracking)	9.31	9.74	8.82	-0.92	9.53	9.07	8.89	8.82	8.69
	Brent (Hydroskimming)	-1.50	-0.38	-2.43	-2.04	-2.15	-2.51	-2.10	-2.12	-2.77
	Urals (Hydroskimming)	0.13	-0.35	-2.24	-1.89	-1.23	-2.25	-2.33	-1.96	-2.34
Mediterranean	Es Sider (Cracking)	7.73	8.30	7.46	-0.84	8.14	7.27	7.00	7.68	7.93
	Urals (Cracking)	8.90	9.22	8.50	-0.72	9.04	8.45	8.14	8.83	8.72
	Es Sider (Hydroskimming)	-0.44	-0.28	-2.02	-1.75	-1.18	-2.43	-2.58	-1.63	-1.47
	Urals (Hydroskimming)	-0.77	-0.95	-2.53	-1.58	-1.89	-2.81	-3.00	-1.93	-2.32
US Gulf Coast	Brent (Cracking)	4.60	6.67	5.92	-0.76	5.16	5.05	4.67	7.61	6.53
	LLS (Cracking)	8.47	10.62	10.04	-0.58	9.64	8.82	7.90	11.49	11.97
	Mars (Cracking)	6.37	6.47	7.00	0.53	6.56	5.99	5.64	8.41	8.06
	Mars (Coking)	14.48	16.10	16.73	0.63	16.59	16.03	14.83	18.16	17.96
	Maya (Coking)	19.40	23.09	23.09	0.00	23.57	22.78	21.07	24.49	24.19
US West Coast	ANS (Cracking)	13.12	8.83	7.85	-0.98	9.14	8.76	7.17	8.46	7.52
	Kern (Cracking)	12.21	7.54	7.50	-0.04	7.78	6.97	7.12	8.71	7.43
	Oman (Cracking)	12.66	7.97	6.34	-1.63	8.90	7.62	6.22	5.65	6.07
	Kern (Coking)	32.51	28.22	28.35	0.12	31.93	31.78	28.36	27.18	26.55
Singapore	Dubai (Hydroskimming)	0.00	-1.31	-3.70	-2.39	-2.18	-3.30	-3.78	-3.98	-3.79
	Tapis (Hydroskimming)	-2.57	-1.41	-5.35	-3.94	-3.06	-3.63	-5.28	-5.63	-6.57
	Dubai (Hydrocracking)	5.35	4.52	2.06	-2.47	3.58	2.49	1.93	1.73	2.03
	Tapis (Hydrocracking)	0.64	1.93	-1.66	-3.59	0.34	-0.24	-1.78	-1.98	-2.50
China	Cabinda (Hydroskimming)	-3.71	-2.08	-4.81	-2.73	-3.92	-3.99	-4.81	-4.16	-5.62
	Daqing (Hydroskimming)	-5.62	-3.80	-8.48	-4.68	-4.61	-4.75	-8.02	-9.56	-10.88
	Dubai (Hydroskimming)	-0.37	-1.95	-4.38	-2.43	-2.76	-3.83	-4.44	-4.75	-4.54
	Daqing (Hydrocracking)	0.11	1.51	-2.32	-3.83	1.01	0.88	-2.29	-3.38	-4.01
	Dubai (Hydrocracking)	5.00	3.92	1.44	-2.48	3.05	2.03	1.33	1.01	1.32

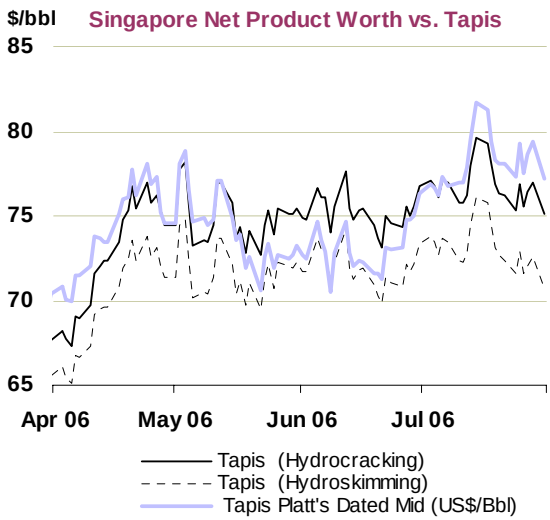
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimized for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability 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.

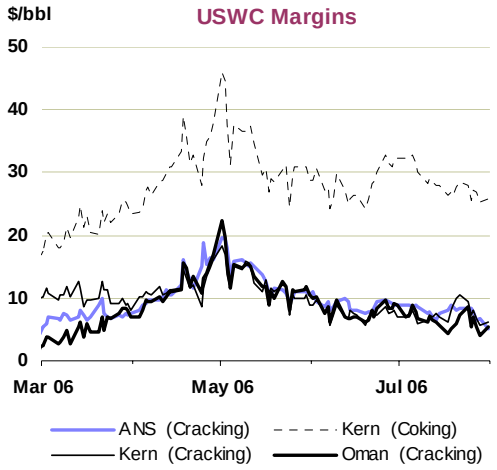
OECD Europe

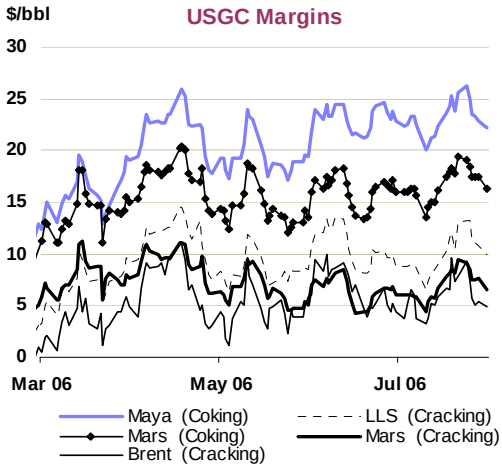
European margins in July were weaker across-the-board, with declines in Northwest Europe (NWE) outpacing those in the Mediterranean (Med), where crude differentials weakened. Product prices were broadly correlated between the two markets, with the exception of gasoil, which fell by nearly $2/bbl more in the Med than in NWE. However, the temporary closure of the Druzhba pipeline tightened the NWE Urals market compared to the Med, with Urals differentials widening by nearly $1/bbl over the course of the month versus NWE.

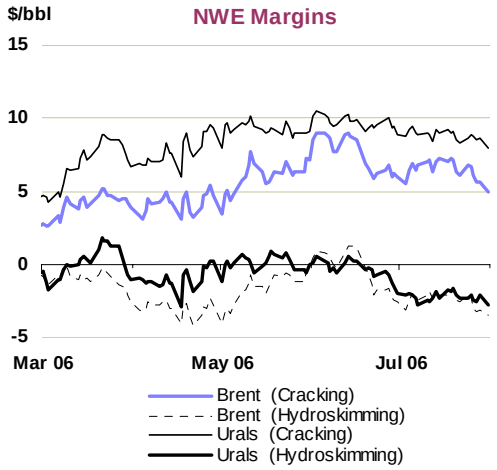


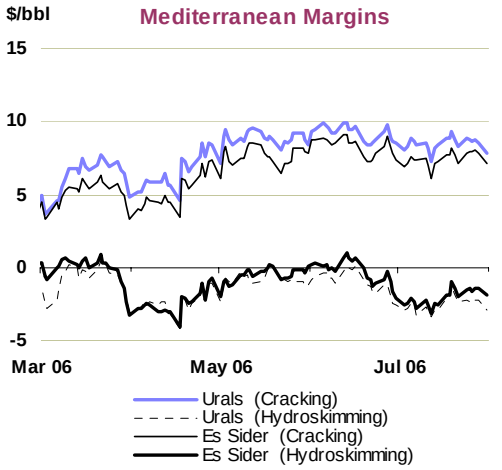


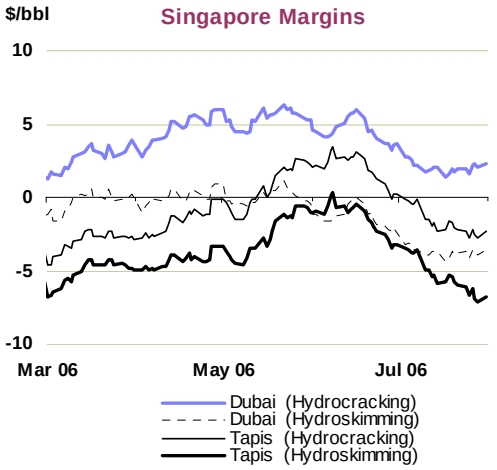
Regional Full-Cost Refining Margins













Medium sour crude remains more profitable than light sweet crude and in general margins were higher in the Med than NWE. European cracking margins were supported by the arbitrage for gasoline to the US, which remained open for much of the month. Gasoline cracks were unaffected by the restart in mid-July of Shell Pernis's 50 kb/d FCC unit in Rotterdam, which had been effectively offline since February. Despite further disruption from small fire at the refinery in late July, full throughput was reached in early August. Increased Russian gasoil imports weighed on distillate prices and rising crude runs eased product market tightness. The commissioning of Total's 50 kb/d hydrocracker at Gonfreville in France, with initial production expected late third quarter or early fourth quarter, will increase ULSD supplies. The only support for regional HSFO cracks was the continued export of significant volumes to the Far East from ARA.

In the Mediterranean, the return of ERG's ISAB Nord refinery to full runs was offset by a disruption to the reformer at the Sarroch refinery, which cut hydrogen production and limited its hydrotreating capacity. This reduced ULSD production, raised gasoil supplies and contributed to pressure on gasoil cracks, which fell over $5/bbl from June. The hot weather seen in Europe in July does not appear to have stimulated utility demand for low sulphur fuel oil.

Asia

In July, Asian margins were universally weaker, with product cracks lower for light products and residual grades, with gasoil and low sulphur waxy residue (LSWR) particularly weak. Tapis margins posted bigger declines than for Dubai as a result of the relative strength in Tapis prices and weaker LSWR prices. Gasoil cracks, which are a major driver of Asian margins suffered as high stocks in Singapore, a lack of arbitrage opportunities to Europe, heavy Indian imports and a lack of local demand undermined crack spreads.

Refinery Throughput

OECD refinery throughputs increased in June by 806 kb/d to an estimated 39.13 mb/d, from a downwardly revised (-149 kb/d) May figure. Over the course of the second quarter crude runs have increased by a total of 987 kb/d from March low point. Higher crude runs in North America and Europe, where maintenance was all but completed, outpaced the decline seen in the Pacific in June, where seasonal maintenance reached its peak. Planned maintenance reached its peak in May in Japan and June in Korea, suggesting that crude runs will recover quickly over the course of the third quarter. Average June OECD throughputs are 437 kb/d below June 2005's level, with only Europe managing to improve on last year's level. As a result, the average OECD capacity utilisation rate in June was 86.8% for the month, compared to 88.5% this time last year. Despite the fall in July US crude runs indicated by weekly data, our estimate of offline capacity suggests that OECD crude runs should increase both in July and August, assuming of course that there are no hurricane-related disruptions.

Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*	*Jun 05*	Utilisation rate[2]	
	Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	mb/d	%	Jun 06	Jun 05
OECD North America										
US[3]	14.81	14.58	14.58	14.94	15.52	15.94	-0.47	-2.8	91.67	95.75
Canada	1.79	1.83	1.80	1.66	1.66	1.78	-0.01	-0.3	88.23	88.49
Mexico	1.33	1.23	1.19	1.26	1.22	1.22	-0.05	-3.7	72.65	71.96
Total	17.93	17.64	17.58	17.86	18.39	18.94	-0.52	-2.7	89.82	93.40
OECD Europe										
France	1.76	1.54	1.57	1.49	1.49	1.64	0.02	1.4	83.08	83.09
Germany	2.28	2.31	2.08	2.30	2.37	2.34	0.03	1.3	96.28	94.07
Italy	1.86	1.88	1.82	1.81	1.50	1.87	-0.04	-1.9	80.40	82.06
Netherlands	0.91	1.04	1.00	0.88	0.92	0.89	-0.20	-18.1	73.02	88.72
Spain	1.23	1.21	1.24	1.20	1.22	1.26	0.15	13.6	98.92	87.11
UK	1.59	1.57	1.44	1.51	1.59	1.60	0.01	0.7	85.46	87.25
Other OECD Europe	4.07	3.90	4.00	4.16	4.20	4.14	0.18	4.5	85.84	84.82
Total	13.69	13.44	13.16	13.36	13.30	13.75	0.16	1.2	86.31	86.41
OECD Pacific										
Japan	4.40	4.27	4.31	3.96	3.50	3.60	-0.08	-2.3	77.14	78.34
Korea	2.53	2.44	2.41	2.33	2.52	2.14	0.02	1.1	83.22	82.29
Other OECD Pacific	0.72	0.67	0.69	0.69	0.62	0.70	-0.02	-2.9	86.60	83.68
Total	7.65	7.39	7.41	6.98	6.64	6.45	-0.08	-1.2	80.03	80.15
OECD Total	39.27	38.47	38.15	38.19	38.33	39.13	-0.44	-1.1	86.83	88.53

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

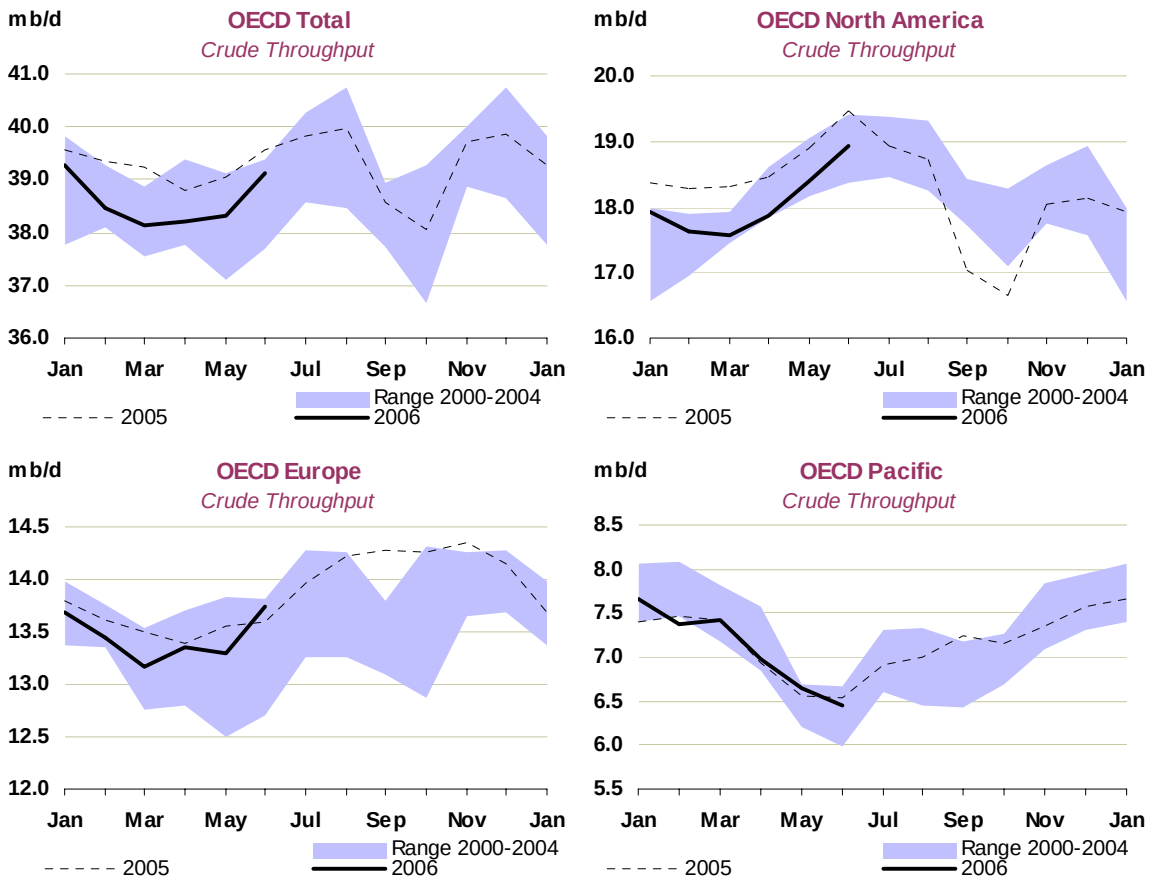
OECD North America

Provisional data for June show that North American crude throughputs increased by 552 kb/d to an estimated 18.94 mb/d. The increase from May's slightly revised level of 18.39 mb/d (-33 kb/d) was driven by lower maintenance activity and fewer unplanned outages, but throughputs continue to trail 2005 levels by over 500 kb/d. North American capacity utilisation rates increased to 89.8% in June, from 87.4% in May.

June US throughputs averaged 15.94 mb/d, 420 kb/d above May's level and the highest level since June 2005. Average capacity utilisation increased to 91.7%, 2.2% higher than May's 89.5%, but still 4% (465 kb/d) below last year. Offline capacity consists of BP Texas city's shut-in capacity of 270 kb/d plus the aggregate of unplanned shutdowns, which averaged almost 330 kb/d in June. Adjusting for this offline capacity suggests refineries ran at 95% of available capacity, which is equal to the rate achieved in June 2005.

Weekly US data point to a decline in throughputs in July as unplanned outages across the US curtailed runs. By late July crude runs has fallen to 15.5 mb/d from a late June peak of 16.1 mb/d. Outages were seen on the East and Gulf Coasts and in the Mid-West region. Late June saw the closure of the Calcasieu shipping channel which forced three refineries, totalling some 700kb/d of capacity to cut runs. This was closely followed by a fire at Suncoco's Philadelphia refinery, shutting a 200 kb/d crude unit from 30 June until 17 July. The biggest disruption came from ConocoPhillips Wood River refinery which shut down on 19 July following a storm-related power outage, necessitating the Environmental Protection Agency to issue product waivers for gasoline. However, output had recovered to 80% utilisation by month-end and the plant was fully operational by 5 August. Elsewhere the restart, reported after five failed attempts, of Exxon Mobil's 90 kb/d Baytown refinery FCC unit in early July should have contributed to increased product supply.

Outside the US, problems in Venezuela affected the 940 kb/d Paraguaná refinery complex. Two fires occurred within days of each other affecting the alkylation unit, and then a 200 kb/d crude unit, which is expected to be out for at least two months. Subsequently an FCC unit went offline for three weeks at the 130 kb/d El Palito refinery.



An increase in August throughputs increase will largely depend on the impact to West Coast crude runs of lower Alaskan crude output. Reports that BP is in the process of restarting the second crude unit at its Texas City refinery may, if successful, boost crude runs from their current level of 200 kb/d towards 400 kb/d. A smooth restart is not however guaranteed: the restart of the reformer is understood to have failed in July, with further remedial work required.

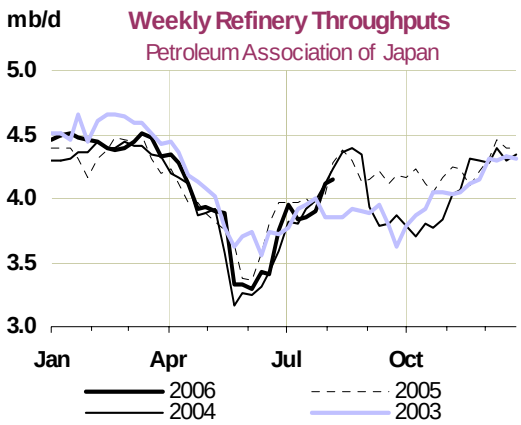
OECD Europe

European crude throughputs averaged 13.75 mb/d in June, an increase of 449 kb/d from May's upward revised (+59 kb/d) level of 13.30 kb/d, reaching their highest level for 2006. Crude runs were 162 kb/d above the June 2005 level. Throughputs recovered in Italy (+364 kb/d) and France (+152 kb/d), but were offset by declines in Denmark, related to maintenance work at Shell's Fredericia refinery and a partial shutdown at Total's Leuna plant in Germany. In the Mediterranean the return of the ISAB plants was slower than previously anticipated with full runs at the ISAB Nord plant achieved by mid-July. Shell seems to have resolved the long running problems with the FCC unit at its Pernis refinery, suggesting that reported runs for the Netherlands should increase over July and August. However, a fire at OMV's Schwechat refinery, in mid-July, will curtail Austrian July throughputs, possibly by as much as 60 kb/d.

French crude runs were subject to a downward revision of 20 kb/d for May, but the increase to 1.64 mb/d for June indicates that some refineries returned more slowly from maintenance than we had anticipated. In July, Shell is reported to have shut down its 141 kb/d Petit Couronne refinery in Northwest France for a month-long turnaround, which may limit further increases in the French capacity utilisation until August. Excluding further unplanned outages, European crude throughputs should have increased in July and again in August, given the return of Pernis, ISAB, Schwechat Fredericia and Petit Couronne.

OECD Pacific

OECD Pacific crude throughputs averaged 6.45 mb/d in June, a decline of 196 kb/d from the downwardly revised (-175 kb/d) May estimate of 6.64 mb/d. The decline reflects the seasonal pattern of peak maintenance activity in Japan and Korea. Japan's slightly heavier maintenance programme resulted in June crude runs dipping 81 kb/d below the June 2005 level. However, with the seasonal peak in maintenance in May, Japanese throughputs increase by 103 kb/d to 3.6 mb/d. Korean maintenance activity increased by almost 170 kb/d from May, with June expected to be the peak month for planned work for Korea in 2006. These two factors pushed total OECD Pacific offline capacity to around 1.2 mb/d for the month.



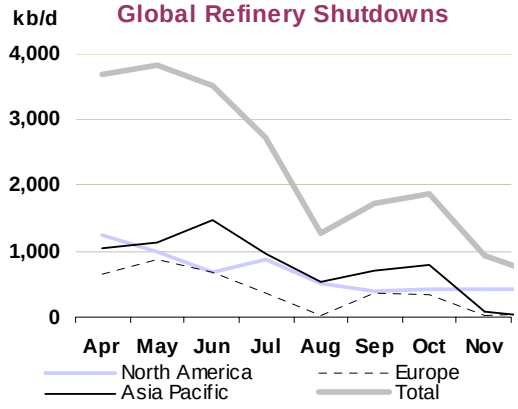
Weekly data from the Petroleum Association of Japan show that crude runs continued to recover from the second quarter low point of 3.29 mb/d and reached 4.14 mb/d in early August, inline with last month's expectations. Some reports suggest that refineries preferred to import reformate for gasoline blending rather than increase crude runs given the poor state of fuel oil cracks and their impact on hydroskimming margins, which may have curtailed crude runs during the month.

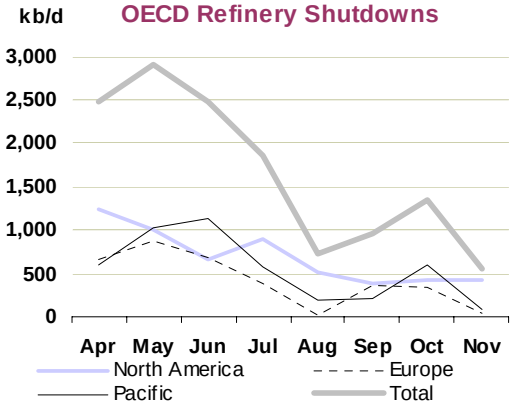
Korean throughputs dipped in June by 375 kb/d to average 2.14 mb/d, which is broadly inline with the June 2005 level. This fall is ahead of our expectations and reflects the very high utilisation rates achieved in May against nameplate capacity. Planned maintenance work should peak in June suggesting crude runs should recover over the course of the third quarter, although the deferral by SK Corp. of work on its Ulsan CDU#2 until late August will mitigate the recovery in runs.

Offline Refinery Capacity

Offline capacity in OECD refineries is expected to reach a low point in August, coinciding with the seasonal peak in Northern Hemisphere gasoline demand. Increased maintenance in all regions in September should cut into crude throughputs at the end of the third quarter. Planned maintenance activity is expected to peak in October, before refineries increase runs ahead of peak winter demand for heating oils. The estimate for offline capacity in June is revised up by 140 kb/d to 2.5 mb/d, while the disruption to refinery activity already highlighted has raised our estimate for July by 284 kb/d to

1.6 mb/d. Increased offline capacity in Europe (+227 kb/d) accounts for the majority of the increase. May remains the peak month for OECD offline capacity, with a revised estimate (+120 kb/d) of 2.9 mb/d.

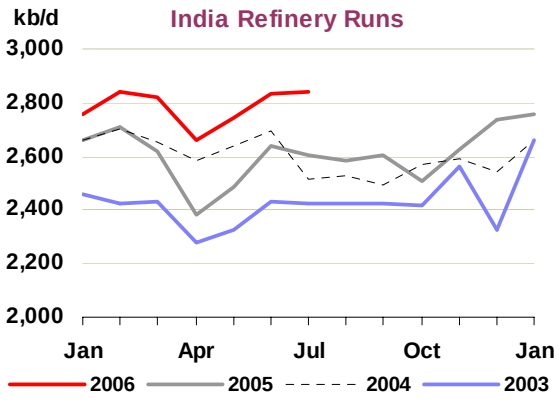


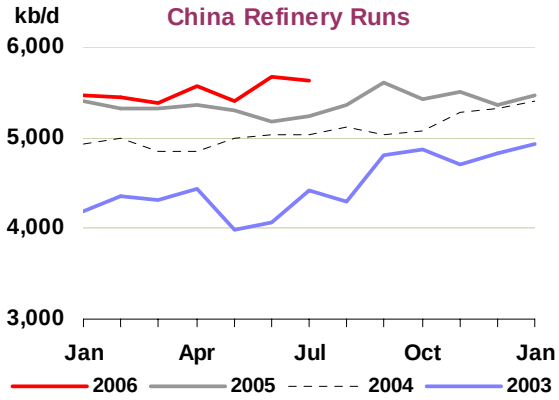


Estimates for global offline distillation capacity have been similarly revised up for June and July. March is still the peak month at just under 4 mb/d, with the upward revision to May (+200 kb/d) increasing our estimate for that month to 3.8 mb/d. Unplanned outages, however, continue to slow the recovery in world throughputs. Since the March peak we estimate that crude runs have recovered by more than 1.3 mb/d with further increases expected in August. We have incorporated into our forecasts 300 kb/d of offline capacity as a proxy for unplanned shutdowns.

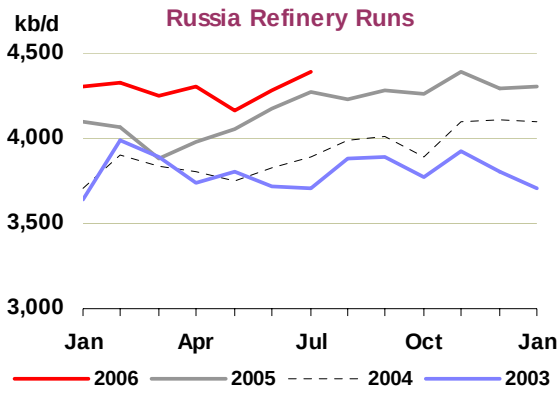
Non-OECD Throughputs

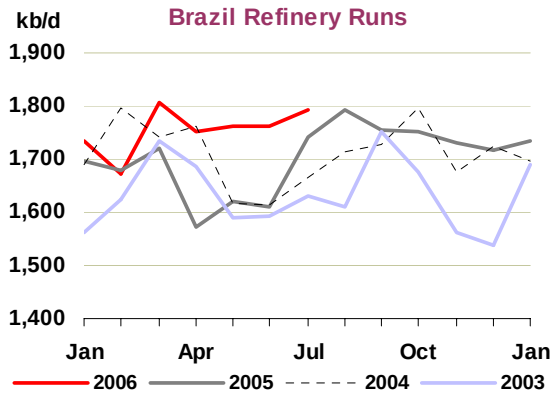
Indian crude throughputs recovered in May to 2.74 mb/d, slightly ahead of last month's estimate of 2.68 mb/d. The commissioning of the Panipat refinery expansion in late May is expected to have boosted June throughputs to above 2.8 mb/d, with incremental additions to crude runs in July. Chinese crude runs as estimated for Sinopec and PetroChina reached 5.7 mb/d in June, with total crude runs estimated at 6.16 mb/d. Refinery throughputs are expected to have fallen by 50 kb/d in July, before recovering by 120 kb/d in August.





Russian crude runs recovered in June to 4.23 mb/d from the 4.15 mb/d reported for May. Increased runs from refineries returning from maintenance and higher domestic crude availabilities following revised crude export taxes all boosted runs. However runs remain below the levels reached in April as some refineries continued maintenance.





Several refinery projects that had been expected to start processing crude over the second and third quarters have seen their start-up dates delayed. The Sohar refinery in Oman was originally expected to start in June, but a series of problems with the commissioning of units has delayed full operations until September. Additional supplies of Oman crude oil were reported to be on offer as a result of the refinery's delayed start. Indian crude runs were originally projected to increase over the third quarter as the Panipat refinery started in early May and the Vadinar refinery expected to start in August. While the Panipat refinery did manage a May start-up, commissioning was almost three weeks later than planned. However, the start-up of Essar's Vadinar refinery has slipped to October from August, with initial crude throughputs of 150 kb/d, well below the design capacity of 210 kb/d. Increases in Chinese capacity have suffered similar delays with the Hainan refinery delaying commissioning from its original date of late May to June, and now again to August, suggesting full operations may not be achieved before the fourth quarter, if further problems are encountered.

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

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	24.5	25.4	25.6	25.3	25.5	25.4	25.5	25.1	25.2	25.9	26.0	25.6	25.9	25.7	26.1	26.2	26.0
Europe	15.4	15.5	15.6	15.1	15.5	15.6	15.5	15.7	14.9	15.5	15.7	15.5	15.5	15.1	15.5	15.7	15.4
Pacific	8.6	8.5	9.4	8.1	8.1	8.8	8.6	9.3	7.8	8.3	9.0	8.6	9.3	8.0	8.1	8.9	8.6
Total OECD	48.6	49.3	50.6	48.5	49.1	49.9	49.5	50.2	47.9	49.6	50.7	49.6	50.7	48.8	49.8	50.8	50.0
NON-OECD DEMAND																	
FSU	3.6	3.8	3.8	3.7	3.8	3.9	3.8	3.9	3.7	3.8	4.0	3.9	3.9	3.7	3.9	4.1	3.9
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	5.6	6.5	6.6	6.5	6.7	6.8	6.6	6.8	7.1	7.1	7.2	7.1	7.2	7.3	7.5	7.8	7.4
Other Asia	8.1	8.6	8.9	8.9	8.7	8.7	8.8	8.9	9.0	8.8	9.0	8.9	9.1	9.1	9.0	9.2	9.1
Latin America	4.7	5.0	5.0	5.1	5.2	5.1	5.1	5.1	5.2	5.3	5.2	5.2	5.2	5.3	5.4	5.4	5.3
Middle East	5.4	5.8	6.0	6.1	6.3	6.1	6.1	6.4	6.4	6.7	6.4	6.5	6.7	6.7	7.0	6.8	6.8
Africa	2.7	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0	3.1	3.1	2.9	3.1	3.0
Total Non-OECD	30.7	33.1	34.0	33.9	34.1	34.2	34.1	34.8	35.1	35.2	35.6	35.2	36.0	36.0	36.4	37.0	36.4
Total Demand[1]	79.3	82.5	84.6	82.4	83.2	84.1	83.6	84.9	83.1	84.8	86.3	84.8	86.7	84.9	86.2	87.8	86.4
OECD SUPPLY																	
North America	14.6	14.6	14.4	14.6	13.7	13.6	14.1	14.2	14.2	14.0	14.2	14.2	14.5	14.4	14.3	14.5	14.5
Europe	6.3	6.1	5.9	5.7	5.4	5.5	5.6	5.5	5.2	5.2	5.5	5.4	5.6	5.3	5.2	5.4	5.4
Pacific	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6
Total OECD	21.6	21.2	20.9	20.9	19.7	19.7	20.3	20.2	19.9	19.8	20.4	20.1	20.7	20.4	20.2	20.6	20.5
NON-OECD SUPPLY																	
FSU	10.3	11.2	11.5	11.5	11.7	11.9	11.6	11.7	12.0	12.2	12.4	12.1	12.4	12.5	12.7	12.8	12.6
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.8	3.7	3.8	3.7	3.7
Other Asia	2.6	2.7	2.7	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.8
Latin America	4.0	4.1	4.2	4.4	4.3	4.3	4.3	4.4	4.4	4.5	4.7	4.5	4.7	4.7	4.7	5.0	4.8
Middle East	2.0	1.9	1.9	1.9	1.9	1.8	1.9	1.8	1.8	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.7
Africa	3.0	3.4	3.5	3.6	3.8	3.9	3.7	4.0	3.9	4.1	4.2	4.0	4.4	4.5	4.7	4.8	4.6
Total Non-OECD	25.6	27.0	27.5	27.7	28.2	28.5	28.0	28.4	28.6	29.2	29.7	29.0	29.8	30.0	30.5	30.9	30.3
Processing Gains[2]	1.8	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Other Biofuels[3]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Total Non-OPEC[4]	49.1	50.1	50.4	50.6	49.9	50.1	50.2	50.7	50.5	51.0	52.1	51.1	52.7	52.6	52.9	53.7	53.0
OPEC																	
Crude[5]	27.1	28.9	29.3	29.8	30.0	29.9	29.8	29.9	29.7								
NGLs	3.7	4.2	4.4	4.4	4.5	4.5	4.5	4.6	4.7	4.8	4.8	4.7	4.9	4.9	5.0	5.1	5.0
Total OPEC	30.8	33.1	33.7	34.2	34.5	34.5	34.2	34.5	34.4								
Total Supply[6]	79.8	83.2	84.1	84.8	84.4	84.6	84.5	85.2	85.0								
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.1	0.1	-0.1	0.9	0.2	-0.6	0.1	0.0	0.7								
Government	0.2	0.1	0.1	0.3	0.0	-0.1	0.1	0.0	0.0								
Total	0.3	0.2	0.1	1.2	0.2	-0.7	0.2	0.0	0.8								
Floating Storage/Oil in Transit	0.2	0.0	-0.4	0.1	0.0	0.1	-0.1	0.1	0.0								
Miscellaneous to balance[7]	0.1	0.5	-0.1	1.0	1.0	1.0	0.7	0.1	1.1								
Total Stock Ch. & Misc	0.5	0.7	-0.5	2.3	1.1	0.5	0.9	0.2	1.9								
Memo items:																	
Call on OPEC crude + Stock ch.[8]	26.6	28.2	29.8	27.5	28.9	29.4	28.9	29.6	27.9	29.1	29.3	29.0	29.1	27.4	28.2	28.9	28.4
Total Demand ex. FSU	75.7	78.7	80.8	78.7	79.5	80.2	79.8	81.1	79.4	81.0	82.2	80.9	82.8	81.2	82.3	83.7	82.5
Total demand exc. FSU (% ch)[9]	1.9	4.0	2.3	1.6	1.5	0.1	1.3	0.3	0.8	1.9	2.5	1.4	2.1	2.3	1.6	1.7	1.9

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 Biofuels from sources outside Brazil and US.
4 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
5 As of the March 2006 OMR, Venezuelan Orinoco heavy crude production is included within Venezuelan crude estimates. Orimulsion fuel remains within the OPEC NGL & non-conventional category.
6 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
7 Includes changes in non-reported stocks in OECD and non-OECD areas
8 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
9 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)

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-0.2	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-0.1	0.1	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-0.3	0.1	-	-	-	-	-	-	-
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
Total Demand	-	-	-	-	-	-	-	-	-0.2	0.1	-	-	-	-	-	-	-
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-0.3	-0.3	-0.1	-0.3	-0.1	-0.1	-	-0.1
Europe	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-0.3	-0.2	-0.2	-0.2	-	-	-	-0.1
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	0.1	0.1	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-0.1	-	-	-	-	-
Total Non-OECD	-	-	0.1	0.1	0.1	0.1	0.1	-	-0.2	-0.1	-	-0.1	-	-	-	-	-
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Biofuels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	0.1	0.1	0.1	0.1	0.1	0.1	-0.2	-0.5	-0.3	-0.2	-0.2	-	-	0.1	-
OPEC																	
Crude	-	-	-	-	-	-	-	-	0.1								
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	0.1								
Total Supply	-	-	0.1	0.1	0.1	0.1	0.1	0.1	-0.1								
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-0.1									
Government	-	-	-	-	-	-	-	-									
Total	-	-	-	-	-	-	-	-0.1									
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-									
Miscellaneous to balance	-	-	0.1	0.1	0.1	0.1	0.1	0.1									
Total Stock Ch. & Misc	-	-	0.1	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	-	-	0.6	0.2	0.2	0.2	-	-	-	-
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-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

	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)																
North America	25.37	25.57	25.34	25.50	25.43	25.46	25.11	25.18	25.93	26.05	25.57	25.93	25.75	26.13	26.16	25.99
Europe	15.48	15.58	15.14	15.55	15.64	15.48	15.74	14.92	15.45	15.70	15.45	15.48	15.11	15.50	15.67	15.44
Pacific	8.49	9.45	8.06	8.07	8.79	8.59	9.30	7.84	8.26	8.95	8.59	9.33	7.99	8.14	8.93	8.60
Total OECD	49.35	50.59	48.54	49.13	49.86	49.53	50.16	47.94	49.64	50.70	49.61	50.74	48.85	49.77	50.76	50.03
FSU	3.76	3.82	3.71	3.79	3.89	3.80	3.87	3.70	3.84	4.03	3.86	3.93	3.68	3.87	4.07	3.89
Europe	0.70	0.77	0.72	0.66	0.72	0.72	0.79	0.73	0.67	0.73	0.73	0.80	0.74	0.69	0.74	0.74
China	6.45	6.58	6.46	6.65	6.79	6.62	6.77	7.12	7.09	7.22	7.05	7.18	7.34	7.47	7.76	7.44
Other Asia	8.64	8.92	8.88	8.67	8.74	8.80	8.90	9.00	8.75	8.96	8.90	9.14	9.14	9.01	9.25	9.14
Latin America	4.97	4.97	5.13	5.19	5.11	5.10	5.08	5.21	5.30	5.23	5.21	5.16	5.34	5.40	5.37	5.32
Middle East	5.81	6.05	6.07	6.35	6.07	6.14	6.38	6.40	6.67	6.41	6.47	6.72	6.75	7.02	6.76	6.81
Africa	2.80	2.91	2.92	2.80	2.91	2.88	2.97	2.99	2.86	2.98	2.95	3.05	3.05	2.93	3.05	3.02
Total Non-OECD	33.14	34.02	33.89	34.11	34.24	34.07	34.77	35.14	35.20	35.57	35.17	35.97	36.03	36.39	36.99	36.35
World	82.48	84.61	82.44	83.24	84.09	83.59	84.93	83.09	84.84	86.27	84.78	86.71	84.88	86.16	87.75	86.38
of which:																
US50	*20.73*	*20.80*	*20.66*	*20.86*	*20.75*	*20.77*	*20.48*	*20.68*	*21.11*	*21.22*	*20.87*	*21.13*	*21.03*	*21.34*	*21.33*	*21.21*
Euro4	*8.27*	*8.25*	*7.94*	*8.24*	*8.19*	*8.15*	*8.37*	*7.86*	*8.12*	*8.19*	*8.14*	*8.15*	*7.89*	*8.15*	*8.15*	*8.08*
Japan	*5.29*	*6.00*	*4.94*	*5.03*	*5.46*	*5.35*	*5.96*	*4.76*	*5.12*	*5.53*	*5.34*	*5.90*	*4.82*	*4.99*	*5.51*	*5.30*
Korea	*2.16*	*2.40*	*2.07*	*2.01*	*2.23*	*2.18*	*2.28*	*2.03*	*2.06*	*2.32*	*2.17*	*2.36*	*2.08*	*2.06*	*2.31*	*2.20*
Mexico	*2.00*	*2.04*	*2.11*	*2.06*	*2.10*	*2.08*	*2.08*	*2.01*	*2.17*	*2.16*	*2.10*	*2.12*	*2.15*	*2.17*	*2.15*	*2.15*
Canada	*2.30*	*2.36*	*2.24*	*2.24*	*2.23*	*2.27*	*2.18*	*2.16*	*2.31*	*2.30*	*2.24*	*2.29*	*2.22*	*2.27*	*2.31*	*2.27*
Brazil	*2.15*	*2.12*	*2.18*	*2.25*	*2.21*	*2.19*	*2.17*	*2.20*	*2.30*	*2.26*	*2.23*	*2.21*	*2.27*	*2.32*	*2.34*	*2.28*
India	*2.58*	*2.73*	*2.60*	*2.48*	*2.57*	*2.59*	*2.74*	*2.75*	*2.53*	*2.65*	*2.67*	*2.84*	*2.75*	*2.62*	*2.75*	*2.74*
Annual Change (% per annum)																
North America	3.5	1.2	1.1	0.2	-1.1	0.3	-1.8	-0.6	1.7	2.4	0.4	3.2	2.3	0.8	0.4	1.6
Europe	0.3	0.4	0.6	0.5	-1.6	0.0	1.0	-1.4	-0.6	0.4	-0.2	-1.7	1.2	0.3	-0.2	-0.1
Pacific	-1.6	2.3	2.3	-0.5	0.6	1.2	-1.5	-2.8	2.3	1.9	0.0	0.3	2.0	-1.5	-0.2	0.1
Total OECD	1.5	1.2	1.1	0.2	-1.0	0.4	-0.9	-1.2	1.0	1.7	0.2	1.2	1.9	0.3	0.1	0.8
FSU	4.7	8.7	-0.2	0.0	-2.7	1.3	1.4	-0.4	1.3	3.5	1.5	1.4	-0.5	0.8	1.0	0.7
Europe	2.5	2.1	2.1	1.7	1.6	1.9	2.5	1.4	1.6	1.6	1.8	0.7	1.7	1.7	1.4	1.4
China	15.8	4.5	-1.3	5.0	2.5	2.6	2.9	10.1	6.6	6.4	6.5	6.1	3.1	5.3	7.4	5.5
Other Asia	7.1	4.3	2.4	2.5	-1.6	1.8	-0.2	1.4	0.9	2.5	1.1	2.6	1.6	3.0	3.2	2.6
Latin America	6.0	3.1	3.0	2.4	2.1	2.7	2.2	1.6	2.1	2.3	2.1	1.6	2.4	1.8	2.6	2.1
Middle East	7.2	5.8	5.8	5.3	5.4	5.6	5.5	5.4	5.1	5.6	5.4	5.3	5.4	5.3	5.3	5.3
Africa	4.4	3.3	3.3	2.5	2.7	3.0	2.4	2.3	2.4	2.4	2.4	2.6	2.0	2.3	2.4	2.4
Total Non-OECD	7.9	4.8	2.1	3.2	1.2	2.8	2.2	3.7	3.2	3.9	3.3	3.5	2.5	3.4	4.0	3.4
World	4.0	2.6	1.5	1.4	-0.1	1.3	0.4	0.8	1.9	2.6	1.4	2.1	2.2	1.6	1.7	1.9
Annual Change (mb/d)																
North America	0.85	0.31	0.27	0.06	-0.28	0.09	-0.45	-0.16	0.43	0.61	0.11	0.81	0.57	0.20	0.11	0.42
Europe	0.05	0.07	0.09	0.08	-0.26	-0.01	0.16	-0.22	-0.10	0.07	-0.02	-0.26	0.18	0.05	-0.04	-0.01
Pacific	-0.14	0.21	0.18	-0.04	0.06	0.10	-0.14	-0.22	0.18	0.16	0.00	0.03	0.15	-0.12	-0.02	0.01
Total OECD	0.75	0.59	0.54	0.10	-0.48	0.18	-0.44	-0.60	0.51	0.85	0.08	0.58	0.91	0.13	0.06	0.42
FSU	0.17	0.31	-0.01	0.00	-0.11	0.05	0.05	-0.01	0.05	0.14	0.06	0.05	-0.02	0.03	0.04	0.03
Europe	0.02	0.02	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
China	0.88	0.28	-0.09	0.31	0.16	0.17	0.19	0.65	0.44	0.43	0.43	0.41	0.22	0.38	0.54	0.39
Other Asia	0.57	0.37	0.20	0.21	-0.14	0.16	-0.02	0.12	0.08	0.22	0.10	0.24	0.15	0.26	0.28	0.23
Latin America	0.28	0.15	0.15	0.12	0.11	0.13	0.11	0.08	0.11	0.12	0.11	0.08	0.12	0.09	0.14	0.11
Middle East	0.39	0.33	0.34	0.32	0.31	0.32	0.33	0.33	0.33	0.34	0.33	0.34	0.34	0.35	0.34	0.34
Africa	0.12	0.09	0.09	0.07	0.08	0.08	0.07	0.07	0.07	0.07	0.07	0.08	0.06	0.07	0.07	0.07
Total Non-OECD	2.43	1.55	0.70	1.05	0.42	0.93	0.75	1.25	1.08	1.33	1.11	1.20	0.89	1.20	1.42	1.18
World	3.18	2.13	1.24	1.15	-0.06	1.11	0.32	0.65	1.60	2.18	1.19	1.78	1.79	1.33	1.48	1.59
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-	-	-	-	-0.02	-0.22	0.04	-	-0.05	-	-0.03	-0.02	-	-0.01
Europe	-	-	-	-	-	-	0.01	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	0.01	-0.07	0.05	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	0.01	-0.29	0.09	-	-0.05	-	-0.03	-0.02	-	-0.01
FSU	-	-	-	-	-	-	-	0.03	-	-	0.01	0.01	0.01	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	0.08	0.04	-0.03	0.02	0.03	-0.01	0.04	0.02	0.02
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	0.01	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	0.11	0.04	-0.03	0.03	0.04	-	0.04	0.02	0.02
World	-	-	-	-	-	-	0.01	-0.17	0.13	-0.03	-0.02	0.04	-0.03	0.02	0.02	0.01
Revisions to Oil Demand Growth from Last Month's Report (mb/d)																
World	0.00	-	-	-	-	-	0.01	-0.17	0.13	-0.03	-0.02	0.03	0.14	-0.11	0.05	0.03

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2005	2006	2007	1Q06	2Q06	3Q06	4Q06	1Q07	May 06	Jun 06	Jul 06
OPEC											
Crude Oil											
Saudi Arabia	9.06			9.27	8.98				9.06	8.91	8.92
Iran	3.88			3.84	3.78				3.70	3.95	3.90
Iraq	1.81			1.71	1.99				1.92	2.07	2.05
UAE	2.46			2.60	2.63				2.60	2.63	2.66
Kuwait	2.13			2.22	2.22				2.22	2.22	2.19
Neutral Zone	0.58			0.59	0.58				0.58	0.58	0.57
Qatar	0.80			0.82	0.82				0.80	0.83	0.84
Nigeria	2.40			2.23	2.19				2.20	2.29	2.26
Libya	1.64			1.67	1.70				1.70	1.70	1.72
Algeria	1.34			1.36	1.34				1.34	1.33	1.31
Venezuela	2.71			2.63	2.61				2.60	2.59	2.47
Indonesia	0.94			0.92	0.91				0.92	0.90	0.89
Total Crude Oil	29.76			29.87	29.75				29.62	29.98	29.76
Total NGLs[1]	4.46	4.72	5.00	4.62	4.66	4.75	4.83	4.91	4.68	4.68	4.74
Total OPEC	34.23			34.48	34.41				34.30	34.66	34.50
NON-OPEC[2]											
OECD											
North America	14.09	14.16	14.46	14.18	14.19	14.03	14.25	14.53	14.14	14.10	14.24
United States	7.27	7.22	7.45	7.19	7.33	7.18	7.16	7.43	7.33	7.38	7.41
Mexico	3.76	3.71	3.63	3.78	3.77	3.68	3.61	3.62	3.77	3.72	3.72
Canada	3.06	3.23	3.38	3.20	3.09	3.16	3.48	3.48	3.04	3.00	3.10
Europe	5.61	5.36	5.39	5.54	5.17	5.19	5.54	5.56	5.22	5.04	5.26
UK	1.83	1.75	1.76	1.84	1.70	1.64	1.81	1.88	1.65	1.66	1.67
Norway	2.97	2.85	2.88	2.93	2.71	2.79	2.98	2.93	2.81	2.63	2.83
Others	0.80	0.76	0.75	0.78	0.76	0.76	0.75	0.75	0.77	0.75	0.76
Pacific	0.58	0.55	0.63	0.49	0.51	0.57	0.62	0.63	0.50	0.51	0.53
Australia	0.54	0.50	0.59	0.45	0.47	0.53	0.58	0.59	0.47	0.47	0.49
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	20.28	20.07	20.47	20.21	19.87	19.79	20.41	20.73	19.86	19.65	20.03
NON-OECD											
Former USSR	11.64	12.08	12.60	11.72	12.03	12.19	12.36	12.40	12.03	12.04	12.05
Russia	9.48	9.73	10.00	9.53	9.67	9.79	9.90	9.90	9.66	9.70	9.72
Others	2.16	2.35	2.60	2.19	2.36	2.40	2.46	2.50	2.37	2.34	2.33
Asia	6.30	6.44	6.51	6.42	6.38	6.47	6.48	6.51	6.33	6.45	6.46
China	3.62	3.71	3.75	3.68	3.70	3.73	3.74	3.75	3.70	3.71	3.72
Malaysia	0.77	0.74	0.75	0.77	0.71	0.74	0.73	0.74	0.66	0.75	0.74
India	0.78	0.81	0.83	0.78	0.80	0.82	0.82	0.83	0.79	0.82	0.82
Others	1.13	1.18	1.19	1.18	1.18	1.18	1.18	1.19	1.18	1.18	1.18
Europe	0.16	0.15	0.13	0.15	0.15	0.14	0.14	0.14	0.15	0.15	0.15
Latin America	4.30	4.50	4.77	4.35	4.42	4.55	4.69	4.70	4.47	4.35	4.50
Brazil	1.99	2.18	2.45	2.06	2.08	2.22	2.37	2.37	2.12	2.01	2.17
Argentina	0.78	0.76	0.75	0.76	0.78	0.76	0.75	0.75	0.78	0.77	0.77
Colombia	0.53	0.54	0.54	0.53	0.53	0.54	0.54	0.54	0.54	0.53	0.54
Ecuador	0.53	0.55	0.56	0.52	0.55	0.55	0.56	0.56	0.55	0.55	0.55
Others	0.47	0.47	0.47	0.47	0.47	0.48	0.47	0.48	0.48	0.48	0.48
Middle East[3]	1.86	1.76	1.72	1.80	1.76	1.75	1.74	1.74	1.76	1.76	1.76
Oman	0.79	0.74	0.71	0.76	0.74	0.73	0.72	0.71	0.74	0.74	0.73
Syria	0.46	0.43	0.41	0.44	0.43	0.43	0.42	0.42	0.43	0.43	0.43
Yemen	0.42	0.40	0.41	0.40	0.39	0.40	0.40	0.42	0.39	0.39	0.40
Africa	3.72	4.05	4.59	3.96	3.90	4.09	4.24	4.35	3.86	3.81	4.03
Egypt	0.70	0.69	0.68	0.69	0.68	0.69	0.69	0.69	0.69	0.64	0.69
Angola	1.25	1.43	1.75	1.42	1.33	1.47	1.49	1.56	1.28	1.29	1.45
Gabon	0.23	0.23	0.23	0.24	0.24	0.23	0.23	0.23	0.24	0.24	0.23
Others	1.54	1.70	1.93	1.61	1.65	1.70	1.83	1.88	1.64	1.64	1.66
Total Non-OECD	27.97	28.97	30.33	28.41	28.63	29.19	29.65	29.84	28.59	28.55	28.94
Processing Gains[4]	1.86	1.90	1.92	1.92	1.89	1.88	1.92	1.92	1.88	1.88	1.88
Other Biofuels[5]	0.12	0.15	0.26	0.15	0.15	0.15	0.15	0.26	0.15	0.15	0.15
TOTAL NON-OPEC	50.23	51.10	52.98	50.69	50.54	51.00	52.13	52.75	50.48	50.22	51.00
TOTAL SUPPLY	84.46			85.17	84.95	65.78	56.97	57.66	84.79	84.88	85.50

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Venezuelan Orimulsion (but not Orinoco 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

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			
	Feb2006	Mar2006	Apr2006	May2006	Jun2006*	Jun2003	Jun2004	Jun2005	3Q2005	4Q2005	1Q2006	2Q2006
North America												
Crude	467.8	463.5	475.2	461.7	455.1	397.8	418.3	447.4	-0.15	0.25	0.08	-0.09
Motor Gasoline	257.5	242.2	237.2	242.5	244.9	236.9	237.9	245.1	-0.19	0.08	0.08	0.03
Middle Distillate	213.5	194.5	190.4	196.3	202.0	182.4	182.6	191.0	0.08	0.16	-0.21	0.08
Residual Fuel Oil	53.1	50.5	49.7	49.7	52.2	43.5	45.2	46.0	-0.04	0.03	0.07	0.02
Total Products[3]	676.6	635.2	637.4	659.5	682.6	637.3	629.7	677.5	-0.16	-0.06	-0.25	0.52
Total[4]	1279.9	1239.1	1255.3	1268.6	1284.2	1185.6	1193.3	1274.5	-0.19	-0.02	-0.18	0.50
Europe												
Crude	340.3	345.6	336.9	345.9	339.2	327.3	339.4	337.2	0.01	-0.13	0.21	-0.07
Motor Gasoline	120.0	110.8	105.3	104.6	101.6	111.1	110.5	104.0	0.02	0.08	-0.03	-0.10
Middle Distillate	261.5	246.2	260.3	257.1	253.8	233.4	235.4	242.9	0.18	-0.03	-0.11	0.08
Residual Fuel Oil	71.5	69.8	75.7	73.0	74.4	67.5	77.3	71.7	0.05	-0.02	-0.04	0.05
Total Products[3]	555.0	528.5	542.9	537.4	531.9	517.0	522.0	519.5	0.24	0.04	-0.19	0.04
Total[4]	971.4	949.3	955.2	957.1	944.1	913.2	932.6	928.5	0.31	-0.14	0.07	-0.06
Pacific												
Crude	157.5	170.7	170.9	185.5	182.3	188.8	176.6	176.4	-0.09	-0.12	0.15	0.13
Motor Gasoline	25.0	24.4	24.5	24.8	23.7	25.3	24.6	24.5	-0.02	0.00	0.02	-0.01
Middle Distillate	63.4	60.3	58.0	67.0	69.2	71.6	60.3	58.9	0.21	-0.18	-0.01	0.10
Residual Fuel Oil	21.0	19.2	22.4	24.5	23.1	24.8	22.6	23.4	0.01	-0.04	-0.01	0.04
Total Products[3]	171.6	167.8	170.3	180.5	182.0	190.4	172.3	173.2	0.20	-0.26	0.00	0.16
Total[4]	395.4	408.0	412.3	438.1	435.5	452.3	419.5	422.1	0.11	-0.42	0.16	0.30
Total OECD												
Crude	965.6	979.8	982.9	993.1	976.6	913.9	934.2	960.9	-0.22	0.00	0.44	-0.04
Motor Gasoline	402.6	377.5	367.1	371.9	370.2	373.3	373.1	373.6	-0.19	0.16	0.08	-0.08
Middle Distillate	538.4	501.0	508.6	520.4	525.0	487.5	478.3	492.8	0.47	-0.06	-0.32	0.26
Residual Fuel Oil	145.6	139.5	147.8	147.1	149.7	135.7	145.1	141.1	0.01	-0.03	0.01	0.11
Total Products[3]	1403.3	1331.5	1350.6	1377.5	1396.5	1344.6	1324.0	1370.1	0.29	-0.28	-0.43	0.71
Total[4]	2646.7	2596.4	2622.8	2663.8	2663.8	2551.1	2545.5	2625.0	0.23	-0.58	0.04	0.74

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			
	Feb2006	Mar2006	Apr2006	May2006	Jun2006*	Jun2003	Jun2004	Jun2005	3Q2005	4Q2005	1Q2006	2Q2006
North America												
Crude	684.8	686.1	687.9	688.6	688.5	608.5	662.4	696.4	-0.03	-0.10	0.02	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	170.2	170.2	171.0	171.9	171.9	154.3	157.9	164.9	0.02	0.00	0.04	0.02
Products	235.2	235.9	233.5	233.1	233.1	206.3	207.5	235.3	0.02	0.02	-0.03	-0.03
Pacific												
Crude	380.0	380.4	380.5	380.5	380.5	383.0	386.8	383.4	-0.01	-0.01	-0.01	0.00
Products	11.3	11.4	11.4	11.7	11.7	9.6	11.0	11.1	0.00	0.00	0.00	0.00
Total OECD												
Crude	1234.9	1236.7	1239.3	1241.0	1240.9	1145.9	1207.1	1244.8	-0.02	-0.11	0.04	0.05
Products	248.5	249.3	246.9	246.8	246.8	217.9	220.6	248.4	0.02	0.02	-0.04	-0.03
Total[4]	1484.5	1487.0	1487.2	1488.7	1488.6	1364.7	1428.7	1494.2	0.00	-0.08	0.01	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 June 2005		End September 2005		End December 2005		End March 2006		End June 2006 [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	164.7	73	170.5	77	178.1	82	169.7	-	-	-
Mexico	45.6	22	52.8	25	43.9	21	41.7	-	-	-
United States[4]	1740.5	84	1707.4	82	1697.9	83	1693.7	-	-	-
Total[4]	1972.9	78	1952.9	77	1942.0	78	1927.2	77	1974.7	76
Pacific										
Australia	35.7	40	34.1	37	32.7	36	35.5	-	-	-
Japan	629.4	125	637.9	117	612.1	103	620.1	-	-	-
Korea	142.5	71	145.4	65	134.9	59	137.4	-	-	-
New Zealand	9.0	62	7.9	48	7.2	44	6.8	-	-	-
Total	816.6	101	825.3	94	786.8	85	799.8	102	827.7	100
Europe[5]										
Austria	20.2	66	19.9	66	19.0	68	18.7	-	-	-
Belgium	27.8	57	30.3	51	28.6	45	27.3	-	-	-
Czech Republic	15.9	70	16.7	79	18.8	99	19.6	-	-	-
Denmark	17.2	96	20.5	111	20.3	102	19.5	-	-	-
Finland	27.0	122	27.3	123	25.1	113	26.7	-	-	-
France	185.6	93	191.4	97	195.6	93	196.2	-	-	-
Germany	279.5	102	275.8	105	282.6	111	279.9	-	-	-
Greece	32.6	85	34.6	75	33.1	69	35.4	-	-	-
Hungary	17.0	105	17.1	104	17.6	120	20.8	-	-	-
Ireland	11.6	63	13.2	65	11.6	55	13.3	-	-	-
Italy	132.1	78	137.0	77	132.0	71	131.5	-	-	-
Luxembourg	0.8	13	0.8	12	0.8	11	0.9	-	-	-
Netherlands	116.6	114	115.7	115	116.4	116	120.5	-	-	-
Norway	21.0	98	30.2	108	30.7	123	21.9	-	-	-
Poland	34.5	70	33.8	69	35.2	77	35.5	-	-	-
Portugal	26.5	78	26.8	82	25.7	78	24.7	-	-	-
Slovak Republic	6.5	83	6.4	81	6.4	78	8.3	-	-	-
Spain	129.4	82	131.7	84	128.6	79	130.2	-	-	-
Sweden	35.4	100	34.6	95	38.0	102	38.4	-	-	-
Switzerland	38.0	134	38.9	137	37.7	128	37.7	-	-	-
Turkey	52.2	76	50.8	81	51.2	100	51.6	-	-	-
United Kingdom	102.3	57	108.7	60	95.6	52	97.8	-	-	-
Total	1329.7	86	1362.1	87	1350.4	86	1356.4	91	1350.1	87
Total OECD	4119.2	84	4140.2	83	4079.2	81	4083.4	85	4152.4	84
DAYS OF IEA Net Imports[6]	-	116	-	116	-	114	-	115	-	-

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 2006 and June 2006 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]*		
2Q2003	3916	1365	2551	81	28	53
3Q2003	3983	1383	2600	80	28	53
4Q2003	3928	1411	2517	79	28	50
1Q2004	3888	1423	2465	81	30	51
2Q2004	3974	1429	2545	81	29	52
3Q2004	4016	1435	2581	80	29	51
4Q2004	4000	1450	2550	79	29	51
1Q2005	4006	1462	2544	83	30	53
2Q2005	4119	1494	2625	84	30	54
3Q2005	4140	1494	2646	83	30	53
4Q2005	4079	1487	2593	81	30	52
1Q2006	4083	1487	2596	85	31	54
2Q2006	4152	1489	2664	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 1Q2006 and 2Q2006 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2003	2004	2005	2Q05	3Q05	4Q05	1Q06	Mar 06	Apr 06	May 06	Year Earlier May 05	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.55	0.46	0.45	0.41	0.52	0.51	0.55	0.70	0.82	0.54	0.28
Europe	1.00	1.03	0.90	0.88	0.92	0.91	0.83	0.81	0.73	0.75	0.92	-0.17
Pacific	1.18	1.24	1.31	1.22	1.25	1.37	1.40	1.47	1.53	1.25	1.29	-0.04
Saudi Medium												
North America	0.83	0.80	0.81	0.89	0.58	0.81	0.65	0.66	0.85	0.60	0.77	-0.17
Europe	0.11	0.11	0.16	0.13	0.20	0.16	0.17	0.16	0.15	0.11	0.13	-0.02
Pacific	0.24	0.23	0.26	0.24	0.27	0.32	0.38	0.37	0.37	0.34	0.23	0.11
Saudi Heavy												
North America	0.30	0.22	0.17	0.15	0.20	0.16	0.21	0.20	0.21	0.14	0.20	-0.06
Europe	0.19	0.23	0.23	0.20	0.27	0.26	0.14	0.16	0.24	0.17	0.18	-0.01
Pacific	0.16	0.15	0.25	0.20	0.26	0.29	0.25	0.22	0.21	0.20	0.21	0.00
Iraqi Basrah Light[2]												
North America	0.44	0.71	0.60	0.69	0.56	0.59	0.44	0.48	0.61	0.56	0.87	-0.32
Europe	0.09	0.21	0.23	0.19	0.24	0.31	0.24	0.23	0.31	0.32	0.20	0.12
Pacific	0.03	0.12	0.06	0.06	0.06	0.06	0.08	0.12	0.12	..	..	..
Iraqi Kirkuk												
North America	0.06	0.02	..	..	..	..	..	..	..	..	..	..
Europe	0.12	0.08	0.05	0.04	0.13	0.03	..	..	..	..	0.02	..
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.19	0.24	0.20	0.18	0.16	0.22	0.20	0.26	0.26	0.21	0.17	0.04
Pacific	0.17	0.16	0.15	0.13	0.14	0.15	0.19	0.20	0.13	0.18	0.15	0.03
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.59	0.57	0.63	0.63	0.71	0.57	0.48	0.39	0.38	0.51	0.66	-0.14
Pacific	0.69	0.65	0.62	0.59	0.52	0.63	0.64	0.69	0.56	0.54	0.61	-0.06
Venezuelan Light & Medium												
North America	0.69	0.67	0.82	0.88	0.79	0.81	0.76	0.78	0.54	0.70	0.98	-0.28
Europe	0.02	0.01	0.04	0.03	0.06	0.07	0.12	0.17	0.14	0.10	0.01	0.08
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.60	0.88	0.72	0.82	0.66	0.56	0.72	0.68	0.67	0.66	0.76	-0.10
Europe	0.06	0.05	0.06	0.06	0.08	0.06	0.08	0.08	0.04	0.03	0.05	-0.02
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	1.32	1.36	1.27	1.36	1.17	1.25	1.26	1.32	1.24	1.22	1.41	-0.18
Europe	0.16	0.16	0.17	0.17	0.16	0.18	0.13	0.13	0.20	0.18	0.22	-0.04
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.00	..	0.03	0.00	0.02	0.10	0.09	0.10	..	..	..	..
Europe	0.00	0.01	0.03	0.01	0.02	0.05	0.01	0.00	0.00	..	..	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.14	0.12	0.13	0.14	0.16	0.09	..	..	0.04	0.19	0.03	0.16
Europe	1.62	1.86	1.77	1.93	1.76	1.69	1.68	1.85	1.72	1.77	2.21	-0.44
Pacific	0.00	0.01	0.00	0.00	0.01	..	..	..	..	..	..	..
Nigerian Light[4]												
North America	0.63	0.80	0.90	0.88	0.94	0.90	0.87	0.77	0.95	0.65	1.01	-0.36
Europe	0.41	0.28	0.35	0.27	0.41	0.41	0.28	0.26	0.29	0.21	0.30	-0.08
Pacific	0.08	0.11	0.05	0.06	0.07	0.02	0.09	0.03	0.02	..	0.06	..
Nigerian Medium												
North America	0.17	0.23	0.17	0.22	0.13	0.15	0.19	0.16	0.12	0.16	0.13	0.03
Europe	0.06	0.04	0.07	0.04	0.08	0.07	0.08	0.07	0.05	0.06	0.06	0.00
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)

	2003	2004	2005	2Q2005	3Q2005	4Q2005	1Q2006	Mar-06	Apr-06	May-06	Year Earlier May-05	Year Earlier % change
Crude Oil												
North America	8069	8431	8384	8614	8251	8101	7740	7784	7935	8208	8297	-1%
Europe	9096	9477	9806	9506	10082	9937	9382	9052	9334	9444	10068	-7%
Pacific	6711	6659	6801	6434	6643	6967	7402	7609	6733	6843	6645	3%
Total OECD	23876	24568	24992	24555	24975	25005	24524	24445	24002	24496	25010	-2%
LPG												
North America	27	24	18	3	18	30	8	7	5	9	0	100%
Europe	193	225	231	163	218	231	280	299	213	260	173	34%
Pacific	541	541	527	591	500	486	651	642	602	580	604	-4%
Total OECD	760	790	776	757	735	746	939	948	820	849	776	9%
Naphtha												
North America	67	99	110	89	151	76	41	32	32	78	96	-22%
Europe	305	282	281	251	297	287	342	302	150	414	278	33%
Pacific	770	769	746	759	693	760	692	634	736	616	741	-20%
Total OECD	1142	1150	1137	1100	1142	1123	1074	968	917	1108	1115	-1%
Gasoline[3]												
North America	669	794	1016	1020	1046	1148	1113	1138	1247	1459	1005	31%
Europe	150	137	172	160	208	122	194	141	25	223	157	30%
Pacific	70	105	102	130	93	90	85	102	108	162	141	13%
Total OECD	888	1035	1291	1310	1346	1360	1392	1381	1381	1843	1303	29%
Jet & Kerosene												
North America	97	101	130	43	139	268	79	96	207	228	51	77%
Europe	271	293	375	364	449	371	319	323	384	345	347	-1%
Pacific	102	77	66	72	48	49	131	81	32	48	80	-66%
Total OECD	470	471	571	479	636	688	529	499	622	622	479	23%
Gasoil/Diesel												
North America	126	123	142	92	99	267	210	110	102	268	113	58%
Europe	652	751	857	766	811	868	1074	1041	1064	884	712	19%
Pacific	73	74	79	94	79	83	80	71	71	113	102	10%
Total OECD	850	947	1078	952	988	1218	1364	1223	1238	1265	927	27%
Heavy Fuel Oil												
North America	326	453	525	433	566	610	481	340	260	325	394	-21%
Europe	398	405	491	549	526	470	521	506	466	449	549	-22%
Pacific	88	76	85	82	90	82	122	118	98	110	95	13%
Total OECD	812	935	1101	1065	1182	1163	1125	964	824	884	1038	-17%
Other Products												
North America	680	872	1005	1064	1166	1049	972	751	1153	1152	1079	6%
Europe	690	676	795	828	807	798	888	934	878	844	759	10%
Pacific	235	256	247	248	225	263	284	304	289	257	208	19%
Total OECD	1605	1805	2047	2140	2197	2110	2145	1988	2320	2253	2046	9%
Total Products												
North America	1991	2466	2947	2745	3185	3447	2903	2474	3005	3520	2738	22%
Europe	2657	2767	3202	3083	3314	3147	3619	3545	3180	3419	2975	13%
Pacific	1879	1898	1852	1975	1728	1812	2046	1953	1937	1885	1970	-5%
Total OECD	6527	7132	8001	7802	8227	8407	8568	7972	8122	8824	7683	13%
Total Oil												
North America	10061	10897	11332	11359	11436	11548	10643	10258	10940	11729	11035	6%
Europe	11753	12245	13009	12589	13396	13084	13001	12597	12513	12863	13043	-1%
Pacific	8590	8558	8653	8409	8370	8779	9447	9562	8671	8728	8615	1%
Total OECD	30403	31699	32993	32357	33202	33412	33092	32417	32124	33320	32693	2%

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

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Readers are referred to the *Users' Guide*, published in conjunction with the *Annual Statistical Supplement* (current issue dated 11 August 2006), 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 Platts prices, converted when appropriate to US$ per barrel according to the Platts specification of products (©2006 Platts - a division of McGraw-Hill Inc.).

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OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

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INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

12 September 2006

HIGHLIGHTS

- **US gasoline futures plunged** by 30% from early August, dragging WTI crude futures below $67. The end to the driving season combined with higher refinery runs, US gasoline stocks surpassing five-year highs and the successful completion of the switch to ethanol-blended gasoline pushed prices lower.

- **Global oil product demand** has been adjusted downwards by 100 kb/d to 84.7 mb/d in 2006 and by 160 kb/d to 86.2 mb/d in 2007. North America accounted for most of the change, with large revisions to both US and Mexican demand. Milder, rainy weather dampened Asian demand in both the OECD and non-OECD.

- **World oil supply** fell 400 kb/d in August to 85.8 mb/d underpinned by lower output from the North Sea, Iran and Saudi Arabia. Non-OPEC supply for 2006 and 2007 is trimmed by 60 kb/d and 145 kb/d respectively, to 51.0 mb/d and 52.8 mb/d. Downward revisions were centred on the North Sea, Mexico, Brazil and Angola.

- **OPEC August crude supply** averaged 30.0 mb/d, 270 kb/d below an upward-revised July base. Pipeline outages continue to restrict supply from Iraq and Nigeria. An unchanged call on OPEC crude and stock change averages 28.9 mb/d in 2006 and 28.4 mb/d in 2007. A prevailing thin margin of spare capacity and high *miscellaneous to balance* may curb the impact of 2007's reduced call.

- **OECD total industry oil stocks** built by 22 mb to 2,668 mb in July as a 30 mb increase in products was partly offset by a decline in crude stocks. The stock increase was concentrated in North American 'other products' and a broad build in OECD distillate inventories. OECD forward demand cover came to 54 days, on par with last month and 1 day below last year.

- **OECD crude throughputs** increased by 430 kb/d in July to 39.5 mb/d. Gains in the Pacific, where seasonal maintenance declined, were partly offset by unplanned outages in Europe and North America. Global offline capacity is projected to have fallen by 1.5 mb/d in August as refiners exited maintenance, but recent weakness in margins could soon prompt economic run cuts, particularly in Asia.

Next Issue: 11 October 2006

CONTENTS

HIGHLIGHTS....1

CONTENTS....2

FOCUSING THE DEBATE....3

DEMAND....4
- Summary....4
- OECD....5
  - Overview....5
  - North America....6
  - Europe....8
  - Pacific....9
- Non-OECD....9
  - Overview....9
  - China....10
  - Other Non-OECD....11

SUPPLY....13
- Summary....13
- OPEC....14
- OECD....17
  - North America....17
  - Update on Alaska's Prudhoe Bay Production Closure....18
  - North Sea....19
- Global Crude Supply Expected to Become Heavier, Sweeter....20
- Former Soviet Union (FSU)....21
- Other Non-OPEC....22
  - Revisions to Other Non-OPEC Estimates....23

OECD STOCKS....24
- Summary....24
- OECD Industry Stock Changes in July 2006....25
  - OECD North America....25
  - OECD Europe....25
  - OECD Pacific....26
- OECD Inventory Position at End-July and Revisions to Preliminary Data....26
- Recent Developments in ARA Independent Storage....27
- Recent Developments in Singapore Stocks....27

PRICES....29
- Summary....29
- Oil Futures Prices....29
- Crude Oil Prices....30
  - Delivered Crude Prices in June....31
- Refining Margins....32
- Product Prices....34
  - Unravelling The Gasoline Conundrum....35
  - End-User Product Prices in August....36
- Freight....37

REFINING....38
- Summary....38
- Refinery Throughput....38
  - OECD North America....38
  - US West Coast Refinery Challenge....39
  - OECD Europe....40
  - OECD Pacific....40
- Offline Refinery Capacity....41
  - Non-OECD Throughputs....42

TABLES....43

OIL MARKETS REPORT CONTACTS

FOCUSING THE DEBATE

With a precipitous 30% decline in the US gasoline market dragging down crude prices by 6-18%, it may seem tangential to talk about oil market data in this overview. But, the data reflect fundamental issues which are pertinent to the debate over whether the recent fall in crude prices marks the top of oil's seven-year bull market rally or is merely a pause before reaching greater heights.

The *miscellaneous to balance* in Table 1 has reached a very high 1.3 mb/d in 2Q 2006 and deserves explanation. Many oil market balances neatly add up, with the usual data anomalies apportioned elsewhere. But this report has a philosophy of being explicit where uncertainty exists and does not force the anomalies into one particular country or category. That being said, we can sometimes have a good idea of where some of these discrepancies lie.

Timing differences between crude oil supply and product demand, unreported OECD or non-OECD stock changes and under or over reported supply and demand might all have an impact. We noted in the past that there appears to be a cumulative underestimation of demand, which over the past few years lies around 300-400 kb/d. This is only likely to be improved when better quality annual data for 2005 is available over the course of the next 9 months.

Difficulties in collecting biofuel data are also apparent. It is much easier to collect ethanol and biodiesel supply than to capture the demand side of the equation. Further, there is very little information on stocks. The US Energy Information Administration has been very open about the difficulties of reporting US data, but the same problems apply elsewhere - does gasoline or diesel demand from a non-OECD country include or exclude biofuels? Ethanol blending takes place at terminals rather than refineries, so its inclusion in primary stocks data is unclear.

China has rarely been off the analytical radar since its oil demand surged in 2004, with debate revolving around demand growth, stocks and demand measurement issues. The IEA defines Chinese apparent demand as refinery output plus net product imports, but an alternative definition would be to look at crude production plus net crude and product imports. The divergence of the outcomes from both methods has been particularly large over the past year, leading to debate over whether there has been a more volatile pattern of demand or simply large stock movements. However, looking at the cumulative implied change in stocks since 2004, the apparent crude stock build since the start of 2006 may simply reflect the replenishment of commercial inventories from a drawdown the previous year. The debate over cause and effect will continue to support prices until stock data is available, but specifically for the second quarter this discrepancy is adding around 300 kb/d to the *miscellaneous to balance*.

Despite the great progress that has been made by the seven organisations behind the Joint Oil Data Initiative to improve oil data transparency there are still countries where stock data are not yet in the public domain. However, where such data or stock changes are published it can be revealing. In particular, we note that available OPEC stock change data shows a 190 kb/d stock build over the second quarter (largely due to changes in Saudi Arabian stocks).

Measuring oil in transit and floating storage is difficult. Where possible we include such data, but it is far from complete. With large national oil companies owning their own tanker fleets, builds in floating storage can often go undetected. Anecdotal reports have suggested a large build in Iranian floating storage in 2006 (and recent sell-off) and in the Gulf of Mexico in Q4 2005, little of which showed up in tanker-tracking surveys. Recent data show a large build in floating storage in Asia in June, but with measured crude stocks at high nominal levels, this may be only part of the picture. Large crude fill projects such as the BTC and Kazakhstan - China pipelines are a further source of unreported stock building and could account for a possible additional 60 kb/d of *miscellaneous to balance* over the past year.

Despite a large second quarter *miscellaneous to balance*, the underlying data uncertainty may not be too far out of the ordinary. Subtracting the possible causes outlined above lowers the second-quarter *miscellaneous to balance* to 300-400 kb/d. The price debate should therefore re-focus not on data anomalies, but on the real issues at play: the risks to global economic growth, the duration of the tightness in diesel and jet markets (in our opinion likely to lessen only in the medium term), the potential for hurricane damage (downgraded but still a danger) and (still high) geopolitical and project completion risks. In addition, for policy makers the message is still clear – more transparency would help to reduce uncertainty, help planning and possibly, in the current circumstances, even reduce prices.

DEMAND

Summary

- **Global oil product demand** has been adjusted downwards by 100 kb/d to 84.7 mb/d in 2006 (implying an annual growth rate of +1.3% over 2005), and by 160 kb/d to 86.2 mb/d in 2007 (+1.8% over 2006). This followed downward revisions to preliminary OECD figures and to non-OECD countries data.

Global Oil Demand from 2005 to 2007

	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)	84.6	82.4	83.2	84.1	83.6	84.9	83.1	84.4	86.3	84.7	86.6	84.7	86.0	87.6	86.2
Annual Change (%)	2.6	1.5	1.4	-0.1	1.3	0.4	0.8	1.4	2.6	1.3	1.9	1.9	1.9	1.5	1.8
Annual Change (mb/d)	2.1	1.2	1.1	-0.1	1.1	0.3	0.6	1.2	2.2	1.1	1.6	1.6	1.6	1.3	1.5
Changes from last month's report (mb/d)	-	-	-	-	-	0.0	-	-0.4	-	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2

Global Oil Demand by Region

(million barrels per day)

	Demand		Annual Change			Annual Change (%)		
	2006	2007	2005	2006	2007	2005	2006	2007
North America	25.51	25.90	0.09	0.05	0.39	0.3	0.2	1.5
Europe	16.19	16.20	0.01	-0.01	0.01	0.1	0.0	0.0
OECD Pacific	8.56	8.54	0.10	-0.03	-0.02	1.2	-0.4	-0.2
China	7.05	7.44	0.17	0.43	0.39	2.6	6.5	5.5
Other Asia	8.89	9.11	0.16	0.09	0.22	1.8	1.0	2.4
Subtotal Asia	24.50	25.09	0.43	0.49	0.59	1.8	2.0	2.4
FSU	3.87	3.90	0.05	0.06	0.03	1.3	1.6	0.8
Middle East	6.47	6.81	0.32	0.33	0.34	5.6	5.4	5.3
Africa	2.95	3.02	0.08	0.07	0.07	3.0	2.4	2.4
Latin America	5.20	5.31	0.13	0.10	0.11	2.7	1.9	2.0
World	84.68	86.22	1.11	1.09	1.54	1.3	1.3	1.8

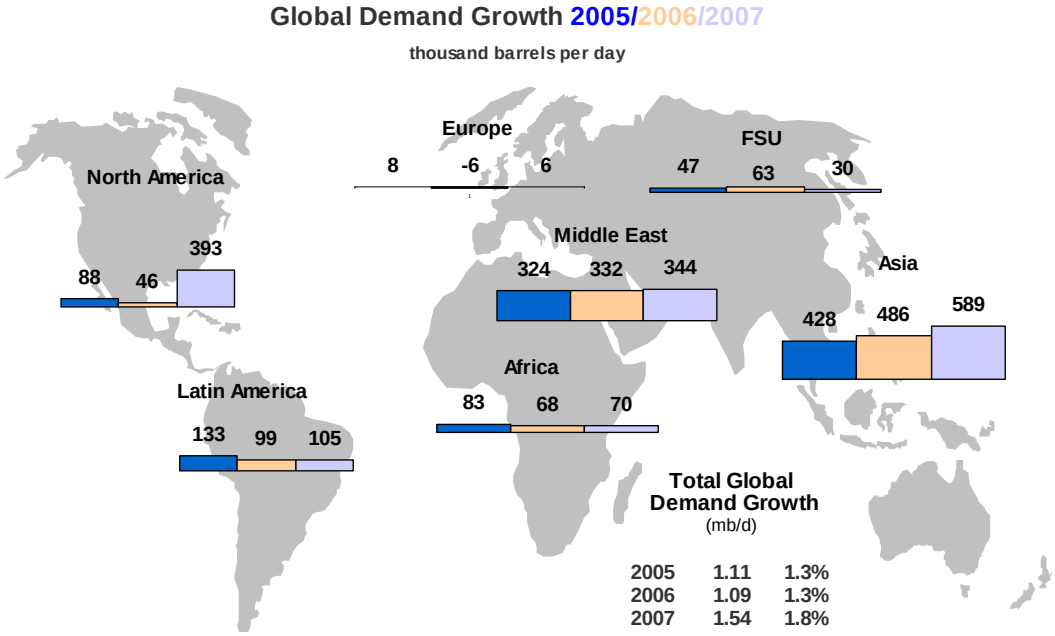
- **OECD demand** has been revised downwards by 87 kb/d to average 49.5 mb/d in 2006, almost unchanged vs. 2005, largely due to revisions to North American preliminary data, flat consumption in Europe, and continued demand sluggishness in the Pacific. For 2007, OECD demand is projected to grow by 0.8% to reach 49.9 mb/d (-129 kb/d compared to our previous report). We have kept our economic growth assumptions for 2006 and 2007 unchanged, but according to the IMF and other economic forecasters, the risks of a slowdown are increasing.

Preliminary Inland Deliveries - July 2006[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]	9.61	1.7	1.66	-2.4	3.31	10.3	0.81	-5.7	0.67	-25.0	4.8	-3.8	20.83	-0.1
Mexico	0.70	8.5	0.06	1.6	0.34	6.7	0.00	na	0.26	-23.2	0.3	0.3	1.70	0.0
Japan	1.11	1.4	0.32	3.5	0.65	0.9	0.40	-6.1	0.40	-9.2	1.6	2.3	4.47	0.0
Korea	0.16	-0.6	0.07	-4.3	0.26	-18.8	0.03	22.7	0.19	-11.4	1.1	9.0	1.85	0.5
France	0.25	-6.9	0.15	4.0	0.66	2.7	0.22	4.1	0.04	3.7	0.4	-3.3	1.77	0.0
Germany	0.53	-4.0	0.20	4.1	0.61	1.6	0.43	-2.3	0.10	7.5	0.5	0.1	2.35	-0.3
Italy	0.30	-7.3	0.10	2.6	0.53	2.0	0.08	4.9	0.14	-1.9	0.4	-2.1	1.52	-1.2
Total	**12.67**	**1.3**	**2.55**	**-0.6**	**6.36**	**5.2**	**1.98**	**-3.3**	**1.80**	**-16.7**	**9.1**	**-0.9**	**34.49**	**-0.1**

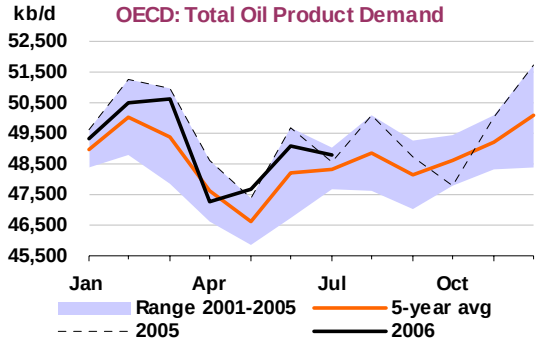
Sources: US EIA, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry.
1 Excludes refinery fuel and bunkers (except US).
2 Includes direct use of crude oil.
3 Fifty states only. Diesel's share of total distillate is estimated.
Note: Monthly US demand data are subject to revision, as discussed in the Reports dated 13 July and 11 August 2005.

- **Non-OECD demand** has been slightly adjusted by -15 kb/d to 35.2 mb/d in 2006 (+3.2% y-o-y), and by -30 kb/d to 36.3 mb/d in 2007 (+3.3% y-o-y). The revisions were prompted by bad weather in Asia for most of July and part of August, which has significantly curbed gasoline and middle distillates use.



OECD

Overview



According to preliminary July 2006 inland delivery data, OECD demand growth was modest (+0.5% versus July 2005), but with divergent regional trends. Year-on-year growth was flat in North America, strong in Europe (+1.6%) and weak in the Pacific (-0.1%). These figures are mostly related to weather conditions and lower-than-expected average consumption of residual fuel oil and other products in the OECD as a whole.

Compared to last month's Oil Market Report, we have revised downwards our total OECD demand forecast for 2006 and 2007, by -87 kb/d and -129 kb/d, respectively. As noted in the following sections, data changes are centred in the US and Mexico, and on seasonal adjustments to residual fuel oil and other products in Europe and the Pacific. For 2006 as a whole, OECD demand now stands at 49.5 mb/d, virtually unchanged from 2005, while for 2007 we expect demand to average 49.9 mb/d (+0.8% over 2006).

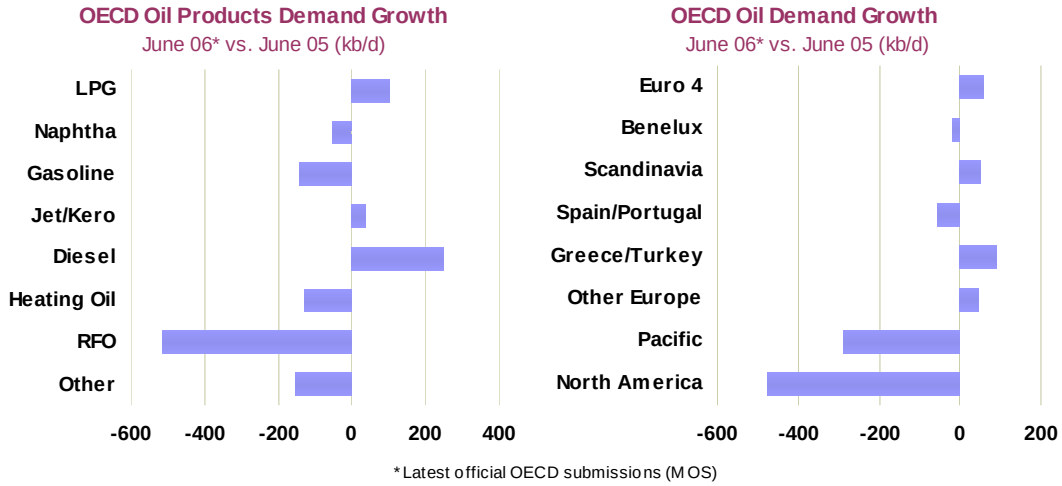
Total OECD Demand by Product
(million barrels per day)

	2005	2006	3Q05	4Q05	1Q06	2Q06	Apr 06	May 06	Jun 06*	Latest month vs. May 06	Latest month vs. Jun 05
LPG & Ethane	4.69	4.66	4.31	4.73	4.99	4.40	4.36	4.39	4.46	0.07	0.10
Naphtha	3.21	3.19	3.24	3.09	3.18	2.92	2.86	2.96	2.94	-0.02	-0.05
Motor Gasoline	14.87	14.93	15.19	14.75	14.35	14.99	14.76	14.96	15.24	0.28	-0.14
Jet & Kerosene	4.22	4.27	3.96	4.38	4.52	4.01	4.14	3.88	4.02	0.14	0.04
Gas/Diesel Oil	13.06	13.22	12.75	13.39	13.74	12.65	12.46	12.60	12.90	0.30	0.12
Residual Fuel Oil	4.44	4.20	4.30	4.48	4.65	3.81	3.85	3.78	3.80	0.02	-0.52
Other Products	5.05	5.05	5.38	5.03	4.72	5.23	4.85	5.10	5.73	0.63	-0.15
Total Products	**49.53**	**49.52**	**49.13**	**49.86**	**50.14**	**48.01**	**47.29**	**47.67**	**49.09**	**1.41**	**-0.60**

* Latest official OECD submissions (MOS)

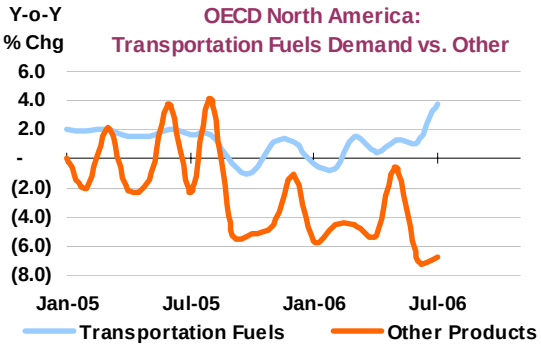
It is important to note that the GDP projections that underline this forecast have not been revised. The IMF has pointed out to risks ahead, but most recent regional figures are somewhat contradictory. In the US, some economists argue that the economy is heading towards a soft landing or even a slowdown following the trail of its housing market, but others point out that manufacturing activity,

albeit somewhat subdued, remain firm and that interest rates are likely to remain at current levels. In Europe, meanwhile, there seems to be a sharper-than-expected rebound, but there is an ongoing debate on whether interest rates will continue to rise. Finally, Japan's economy continues to recover, but it remains to be seen whether monetary policy will be tightened. In sum, while the forecasts of major economic institutions remain positive, there is a broad consensus that the risks to growth are increasing. Axiomatically, therefore, the risks to oil product demand growth projections have also risen.



North America

Following June's robust pace, regional demand growth in transportation fuels was even stronger in July. Provisional data indicates that motor gasoline and jet/kerosene deliveries in the region increased in line with the seasonal holiday pattern, by 2.4% and 2.7%, respectively, compared to July 2005. Meanwhile, diesel shot up by 11.3%. The region's overall demand, however, was actually flat, as transportation fuel deliveries were offset by large drops in other categories (notably naphtha, heating oil, residual fuel and 'other products'). Within the region, transportation fuels represent more than 60% of total consumption, with the US accounting for roughly 90% of that total.



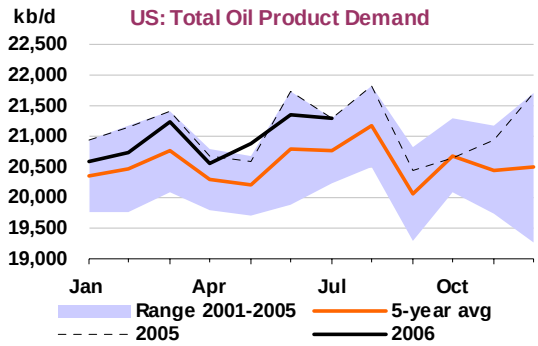
OECD North America Demand by Product

(million barrels per day)

	2005	2006	3Q05	4Q05	1Q06	2Q06	Apr 06	May 06	Jun 06*	Latest month vs. May 06	Latest month vs. Jun 05
LPG & Ethane	2.80	2.82	2.58	2.81	2.98	2.65	2.70	2.63	2.61	-0.02	-0.02
Naphtha	0.45	0.44	0.50	0.30	0.36	0.40	0.34	0.45	0.40	-0.05	-0.07
Motor Gasoline	10.61	10.75	10.77	10.58	10.35	10.80	10.60	10.82	10.98	0.16	0.05
Jet & Kerosene	1.93	1.95	1.93	1.97	1.87	1.94	1.94	1.92	1.98	0.06	0.03
Gas/Diesel Oil	5.08	5.19	4.93	5.14	5.35	5.01	4.95	5.07	5.01	-0.06	0.02
Residual Fuel Oil	1.57	1.35	1.61	1.62	1.43	1.15	1.18	1.13	1.15	0.02	-0.34
Other Products	3.01	3.00	3.18	3.02	2.77	3.15	2.87	3.07	3.51	0.44	-0.14
Total Products	**25.46**	**25.51**	**25.50**	**25.43**	**25.11**	**25.11**	**24.58**	**25.09**	**25.65**	**0.55**	**-0.48**

* Latest official OECD submissions (MOS)

In July, gasoline deliveries climbed 1.7% in the **United States**, together with distillates (diesel and heating oil) at +6.7% compared to July 2005. Lower deliveries of jet fuel, residual fuel oil and other products, however, offset these gains and pushed total US petroleum deliveries down by 0.1% versus last year.



Despite retail prices averaging nearly $3 per gallon in July (up 30% from the previous year), the increase in gasoline demand is following seasonal patterns. Nevertheless, consumers appear to be switching to cheaper grades. According to figures from the Energy Information Administration (EIA), since last January the share of regular gasoline sales has gradually increased from slightly over 81% of total gasoline sales to almost 83% in June (and 80% a year before), at the expense of midgrade and premium gasoline deliveries. There has also been an increase in the use of public transportation in large metropolitan areas, according to the American Public Transport Association (APTA). However, looking ahead it seems likely that retail prices will fall sharply over the next few months – in absence, of course, of any hurricane emergency – given August's 30% decrease of wholesale gasoline prices. As such, demand growth over the remainder of this year will probably look strong – especially because of the low baseline of the Katrina-stricken 2H05.

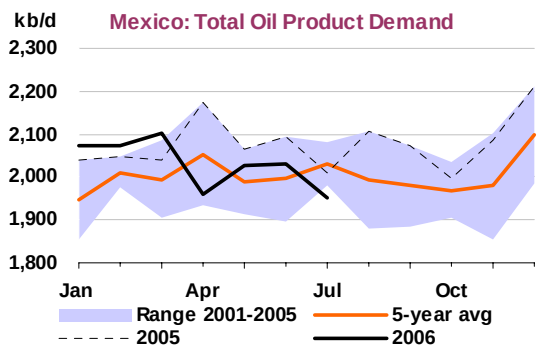
More interestingly, despite of recurrent talk about the US slowing down, diesel demand – a good indicator of economic activity (mostly driven by freight transport) – remained buoyant in July. Heating oil use, meanwhile, declined in line with usual seasonal patterns, while the weakness in jet fuel demand can be attributable to airlines' efforts to reduce their operating costs. In the face of high fuel prices, airlines are consolidating routes and carrying more passengers per aeroplane, thereby reducing the number of flights.

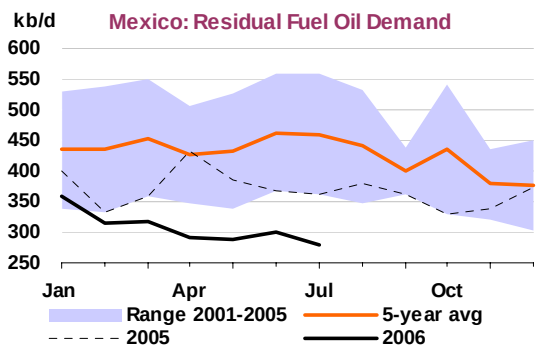
The weakness in residual fuel oil consumption is largely explained by continued price competition from natural gas. On average, gas prices have been lower than fuel oil's over the past four months, thereby encouraging substitution by end-users. This price effect should be seen through to the end of 2006, given last year's relatively strong baseline (demand jumped following Hurricane Katrina in 2005). Finally, the depressed consumption of 'other products' appear to follow a pattern of decline since early 2006.

There were large data revisions for June and July (-233 kb/d vs. preliminary data and -142 kb/d vs. our previous forecast, respectively). We have thus slightly revised down our quarterly and yearly projections. Accordingly, demand for 2006 is down by -27 kb/d, and by -60 kb/d in 2007, bringing the annual growth rates to +0.4 % and +1.4%, respectively. The recurrent downward adjustments of US figures over the past few months highlight collection difficulties of gasoline data, following the switch from MTBE to ethanol blending in 2006. MTBE was blended at the refineries, which then reported these volumes to the EIA. By contrast, ethanol blending with reformulated blendstock for oxygenate blending (Rbob) is carried out at the terminals, which historically did not report to weekly surveys – a requirement that has now been formalized.

Furthermore, given the large adjustments to 2004 growth in last year's Petroleum Supply Annual (PSA), there are concerns that significant demand-side adjustments may be applied to 2005 data. The PSA is expected to be released over the next few months.

Mexico's preliminary data show that fuel oil and other products' demand was much lower than anticipated. This has resulted in a large revision in July (-298 kb/d). Favourable natural gas prices over the past few months, heavy rains, and to a lesser extent, environmental concerns have encouraged a switch away from fuel oil for power generation. As a result, residual consumption has been remarkably weak so far this year.

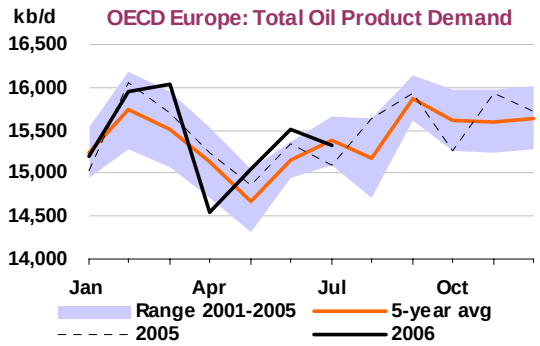




In early August the first LNG shipment to Mexico reached Shell's brand-new regasification plant in Altamira, on the Gulf Coast – its main customer is the state-owned electricity utility CFE. In addition, there are other regasification facilities under construction or planning, notably on the Pacific Coast. Thus, as the points of natural gas pricing arbitrage multiply (currently the reference price for most Mexican gas is the quite volatile US Henry Hub), a domestic, competitive gas market could emerge, and the weakness of fuel oil demand with respect to natural gas usage could become structural if gas prices remain competitive.

Europe

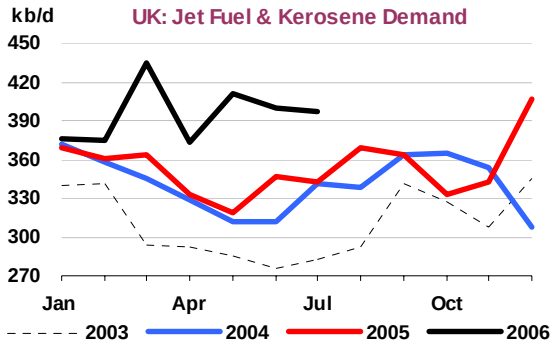
In July, oil product demand was generally flat in the largest European countries (**France**, **Germany** and **Italy**), despite somewhat stronger-than-expected economic growth, notably in France. Declining sales of gasoline were offset by higher jet fuel and diesel consumption, and marginally by residual fuel oil. Nevertheless, preliminary data indicate that the region as a whole grew by a strong 1.6% vs. the same month of the previous year.



Although demand for transportation fuels as a whole (gasoline, diesel and jet/kero) followed seasonal patterns, a closer examination of each product reveals that jet/kero and diesel growth was indeed strong (+6.5% and 3.0%, respectively), but that gasoline deliveries contracted by 1.2%.

Fuel oil demand for power generation was weak despite higher power consumption, since utilities' stocks were reportedly well supplied, although **Italy** and the drought-stricken **Iberian Peninsula** registered a spike as a result of July's heatwave (which boosted power demand). Meanwhile, heating oil consumer stocks continued to build in **Germany**.

Regarding the **UK**, some reports suggest that London Heathrow's alleged terrorist plot on 10 August did not have as large an impact on jet fuel demand as it had been feared, since the disruptions and delays, albeit significant, lasted only one week. Next month's inland data should provide a clearer picture; for the time being, we have only marginally revised our assessment of UK jet fuel consumption (which represents almost a third of total jet fuel demand in OECD Europe). Any reduction would likely have the same subduing effect as last December's fire at the Buncefield oil depot, which obliged the airport operator (BAA) to implement a "voluntary" fuel allocation system at Heathrow Airport (which dampened UK growth by as much as 0.3%, according to some estimates).



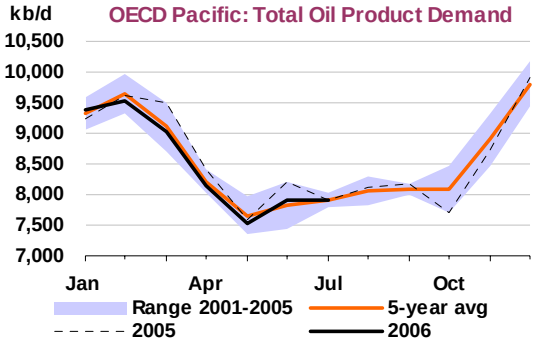
OECD Europe Demand by Product
(million barrels per day)

	2005	2006	3Q05	4Q05	1Q06	2Q06	Apr 06	May 06	Jun 06*	Latest month vs. May 06	Latest month vs. Jun 05
LPG & Ethane	1.00	0.96	0.91	1.04	1.09	0.92	0.84	0.95	0.96	0.01	0.08
Naphtha	1.18	1.14	1.15	1.21	1.17	1.04	1.09	1.01	1.03	0.01	-0.04
Motor Gasoline	2.65	2.56	2.75	2.56	2.43	2.63	2.58	2.63	2.68	0.05	-0.14
Jet & Kerosene	1.24	1.30	1.33	1.23	1.23	1.32	1.25	1.31	1.39	0.07	0.10
Gas/Diesel Oil	6.10	6.18	6.07	6.34	6.47	5.85	5.68	5.85	6.02	0.18	0.21
Residual Fuel Oil	1.82	1.82	1.70	1.80	2.06	1.71	1.67	1.71	1.74	0.04	-0.09
Other Products	1.49	1.48	1.64	1.46	1.28	1.58	1.45	1.59	1.70	0.11	0.04
Total Products	**15.48**	**15.46**	**15.55**	**15.64**	**15.72**	**15.04**	**14.55**	**15.04**	**15.52**	**0.47**	**0.16**

* Latest official OECD submissions (MOS)

Pacific

Preliminary delivery data for July 2006 indicate that oil product demand in OECD Pacific was somewhat weak, falling by 0.1% year-on-year. This sluggish growth was mostly related to higher-than-average rainfall and colder weather, particularly in Japan, which accounts for almost two-thirds of the region's total oil product demand. As such, gains in LPG, naphtha, jet/kero and gasoline were offset by weaker demand in diesel (-2.4%), residual fuel (-9%) and other products (-11%).



OECD Pacific Demand by Product
(million barrels per day)

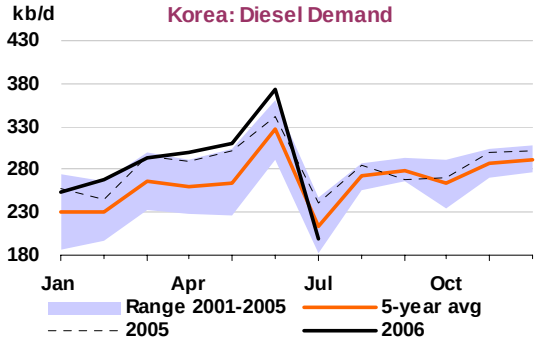
	2005	2006	3Q05	4Q05	1Q06	2Q06	Apr 06	May 06	Jun 06*	Latest month vs. May 06	Latest month vs. Jun 05
LPG & Ethane	0.89	0.88	0.82	0.88	0.93	0.84	0.82	0.81	0.88	0.07	0.04
Naphtha	1.58	1.60	1.58	1.58	1.65	1.48	1.43	1.49	1.51	0.02	0.06
Motor Gasoline	1.61	1.61	1.66	1.61	1.57	1.56	1.58	1.52	1.58	0.07	-0.05
Jet & Kerosene	1.04	1.02	0.70	1.19	1.42	0.75	0.95	0.65	0.65	0.00	-0.09
Gas/Diesel Oil	1.87	1.85	1.75	1.91	1.92	1.79	1.83	1.68	1.86	0.18	-0.11
Residual Fuel Oil	1.05	1.02	0.98	1.07	1.16	0.95	1.00	0.94	0.91	-0.03	-0.09
Other Products	0.55	0.57	0.57	0.55	0.67	0.50	0.54	0.45	0.52	0.08	-0.05
Total Products	**8.59**	**8.56**	**8.07**	**8.79**	**9.30**	**7.87**	**8.15**	**7.54**	**7.92**	**0.39**	**-0.29**

* Latest official OECD submissions (MOS)

In **Japan**, preliminary July data indicate that gasoline demand grew by a respectable 1.4% year-on-year, despite to a prolonged rainy season that discouraged holiday travel (August, however, was much drier) and record-high pump prices of over $1.3/litre and buoyant sales of "mini-vehicles" (with engines not bigger than 600cc). It is worth noting that July was the seventh consecutive month of year-on-year gains in vehicle sales of this category (as opposed to falling sales of other vehicles; overall, these small cars now account for roughly a third of Japan's fleet.

In addition, consumption of both residual fuel oil and direct-burning crude was weak because of a lack of demand from power utilities, following higher reliance on nuclear and hydro power (boosted by rains) and abundant stockpiles. Finally, kerosene demand was boosted by a consumer stock build ahead of the winter, in line with seasonal patterns (the Japanese use kerosene for heating).

Meanwhile, in **Korea** overall oil product demand remained weak in July (-1.2% year-on-year, after slipping by 0.8% on an annual basis in the previous month). Diesel deliveries, in particular, were hampered by new taxes and heavy rains (-17.2% year-on-year). Stock builds prior to the 1 July tax hike seemingly supplied some of the needs of the transportation sector. High prices also help explain Korea's relative consumption weakness.



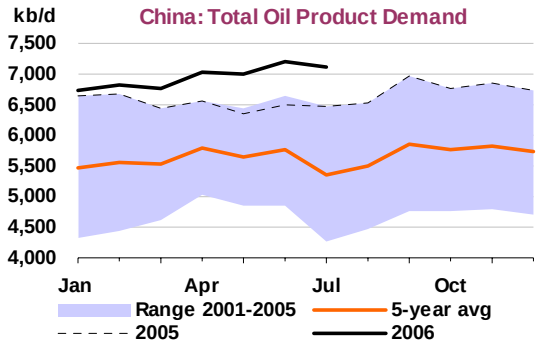
Non-OECD

Overview

We have left our 2006 and 2007 non-OECD demand forecasts essentially unchanged, as minor quarterly Chinese demand revisions in both years offset each other. For 2006, we expect non-OECD demand to average 35.2 mb/d (-15 kb/d compared to the last report, implying a growth rate of 3.2% versus 2005), and 36.3 mb/d in 2007 (-30 kb/d and 3.3% higher than this year).

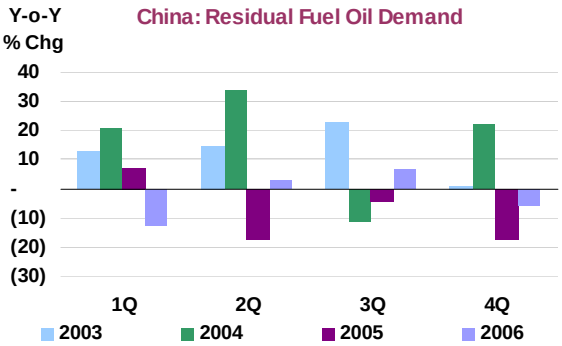
China

According to preliminary data, Chinese apparent demand remained strong in July; both refinery output and oil product imports were vigorous. The main drivers behind the consumption figures were resilient demand for transportation fuels and, to a lesser extent, warmer-than-average weather.



Indeed, July's refinery output was strong, despite maintenance and unplanned outages that reduced production compared to June's very high levels. Refiners tried to maximize diesel production (which accounts for a third of demand) at the expense of jet fuel – a political decision intended to avoid shortages. However, there was no surge in jet fuel imports, as some reports had anticipated – jet imports were actually lower than in June but within the average of historical trends (it should be noted that June imports were particularly strong). The weakness of apparent jet/kero consumption (-2.6% versus July 2005) suggests either that air travel was less buoyant than expected (but there is no evidence for this), or more plausibly, that Chinese refiners were drawing on their stocks to supply the domestic market.

July's weather, meanwhile, was hotter-than-average. Although fuel oil and gasoline demand would under such circumstances be expected to be strong, some caveats are in order:



- Given new non-oil power generation capacity, hot temperatures did not create as much strain on the national electricity grid (as opposed to previous years, when diesel demand surged for private electricity generation).
- There were wide differences across regions. For example, in drought-stricken central China's Sichuan province, local gasoil demand was strong given a power supply crunch. Meanwhile, southern China faced heavy rains (and a typhoon), which dampened gasoline use.
- It should be noted that high fuel oil demand likely reflects the fact that it is increasingly used as a teapot refinery feedstock, since it is cheaper than crude – crude imports were actually lower than those recorded in each of the past six months. Fuel oil imports have risen by a third over the past two months (June and July), suggesting that they are partly offsetting crude imports.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2005	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
LPG & Ethane	638	644	648	6	4	0.9	0.6
Naphtha	774	885	943	112	58	14.4	6.6
Motor Gasoline	1091	1179	1261	88	82	8.1	7.0
Jet & Kerosene	238	267	282	29	16	12.2	5.9
Gas/Diesel Oil	2127	2252	2418	125	166	5.9	7.4
Residual Fuel Oil	787	767	766	-20	-1	-2.5	-0.1
Other Products	966	1055	1118	89	63	9.2	6.0
Total Products	**6621**	**7049**	**7437**	**428**	**387**	**6.5**	**5.5**

As noted, the government is strictly controlling gasoline exports in order to avoid shortages (as happened a year ago when refiners ramped up exports to compensate for their price-induced domestic losses). For example, state-owned PetroChina has not sent a single gasoline cargo abroad over the past four months (and this is likely to continue throughout September, according to recent reports).

The observed pattern of low naphtha imports is expected to continue throughout the rest of the year. Major petrochemical plants (such as Shell/CNOOC's Huizhou, in Guangdong province, or BASF's Yangzi) are reported to be importing condensates instead and have thus significantly reduced their international naphtha purchases. In addition to condensates, petrochemical plants are buying the relatively plentiful domestic naphtha. Supply has grown to feed a host of new naphtha-hungry ethylene projects. There has also been less use of naphtha in gasoline blending. Meanwhile, ex-refinery prices in line with international ones have discouraged imports.

China Crude & Product Trade
(thousand barrels per day)

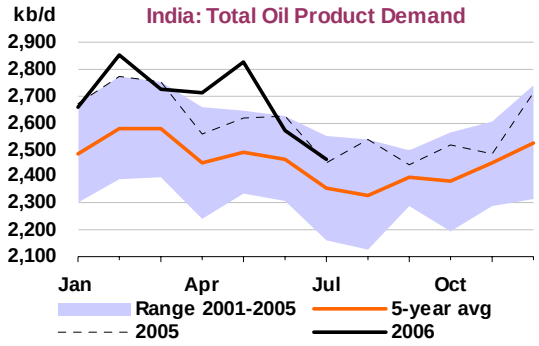
	2004	2005	3Q2005	4Q2005	1Q2006	2Q2006	May 06	Jun 06	Jul 06	Latest month vs. Jun 06	Latest month vs. Jul 05
Net Imports/(Exports) of:											
Crude Oil	2346	2387	2294	2407	2872	2821	2899	2787	3145	358	723
Products & Feedstocks	661	480	445	599	512	772	697	964	773	-191	773
Gasoil/Diesel	43	-19	-40	-3	-10	-14	-15	-22	-12	10	-12
Gasoline	-125	-130	-155	-55	-107	-56	-72	-34	-52	-19	-28
Heavy Fuel Oil	506	418	397	402	406	522	468	654	624	-30	623
LPG	201	194	216	182	146	227	226	238	113	-126	113
Naphtha	-33	-35	-25	1	-15	-36	-58	-32	-23	10	-7
Jet & Kerosene	16	11	2	30	43	33	7	73	-1	-74	23
Other	52	41	49	42	49	96	141	87	124	37	60
Total	3008	2867	2739	3006	3384	3593	3596	3750	3917	167	1496

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

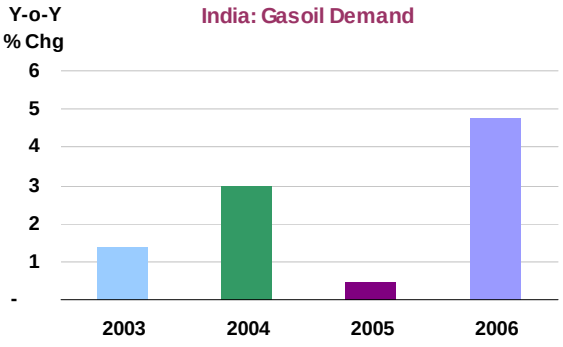
Overall, a large revision to preliminary data in June (-106 kb/d) was offset by an adjustment to our forecast for July (+196 kb/d). June's demand for transportation fuels and fuel oil was weaker than expected; meanwhile, as noted, July's demand for LPG and naphtha was also weaker, but residual and other products consumption was higher. As such, we have kept our growth forecast for 2006 and 2007 unchanged at +6.5% and +5.5%, respectively.

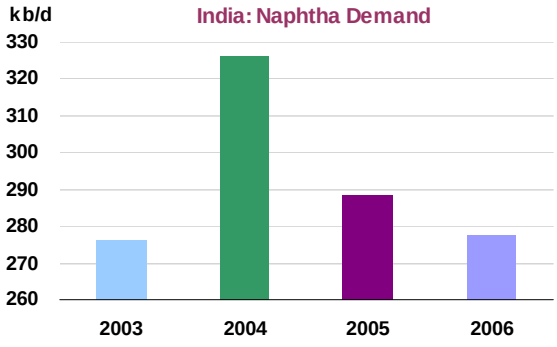
Other Non-OECD

India's preliminary figures indicate that demand rebounded somewhat in July (+0.6% year-on-year, but from a low 2005 baseline). Growth was driven by gasoline (+4.3%) and gasoil (+4.8%). June data were adjusted downwards compared to our previous forecast (-126 kb/d), because of weaker-than-expected naphtha and gasoil demand.



The decline in naphtha consumption follows a trend: this petrochemical feedstock continues to be gradually replaced by natural gas as LNG imports increase. In July there were numerous reports of Indian refiners exporting their naphtha surpluses and depressing naphtha's premium against crude. Floods in western India also contributed to restrict demand and, incidentally, disrupted natural gas supplies, obliging several petrochemical and power plants to shut down.





Gasoil's weakness is related to extreme weather conditions that have impinged upon agricultural output: drought in the largest rice-producing states (West Bengal, Uttar Pradesh and Punjab) and torrential monsoon rains and flooding in the southern sugarcane and cotton belt (Andhra Pradesh, Karnataka, Gujarat, Maharashtra, Orissa, Jharkhand) towards the end of the month (paradoxically, in early July the monsoon rains had been deemed "not very active"). Nevertheless, growth in 2006 should be healthier than last year's. The strong monsoon rains have for now reduced field work, but they could foster larger crops later in the year.

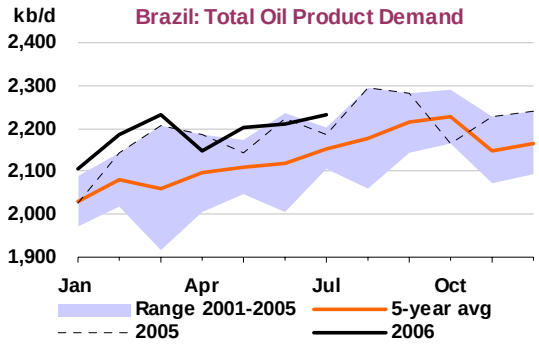
India Crude & Product Trade
(thousand barrels per day)

	2004	2005	3Q2005	4Q2005	1Q2006	2Q2006	Apr 06	May 06	Jun 06*	Latest month vs. May 06	Latest month vs. Jun 05
Net Imports/(Exports) of:											
Crude Oil	1945	1927	1965	1882	2216	2199	1800	2231	2565	334	701
(by Public Oil Cos)	1158	1131	1112	1164	1427	1412	1092	1409	1734	325	632
Products & Feedstocks	-176	-123	-116	-201	-370	-355	-333	-343	-389	-46	-205
Gasoil/Diesel	-139	-139	-135	-224	-219	-95	-94	-101	-89	12	38
Gasoline	-75	-24	-35	29	-78	-66	-72	-60	-65	-5	-25
Heavy Fuel Oil	-6	-5	7	-34	-47	-49	-47	-47	-52	-6	-59
LPG	86	98	98	126	55	14	23	21	-2	-24	-67
Naphtha	-7	-32	-28	-47	-74	-93	-91	-89	-100	-11	-23
Jet & Kerosene	-47	-34	-33	-63	-65	-58	-42	-59	-72	-13	-43
Other	12	14	10	13	58	-9	-9	-8	-9	0	-28
Total	1769	1804	1849	1681	1846	1845	1468	1888	2176	288	495

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

In **Brazil**, the National Petroleum Agency (ANP) posted minor downward revisions from February to May. June was weaker than foreseen (-48 kb/d), essentially in gasoil. This and other small seasonality adjustments have resulted in a slower projected growth rate in 2006 (+1.5% instead of +1.8%).

It is worth noting that sales of flex-fuel cars rose by 71% in the year to date, and represented almost 77% of total sales. This highlights consumers' diversification away from expensive-to-run gasoline-powered vehicles.

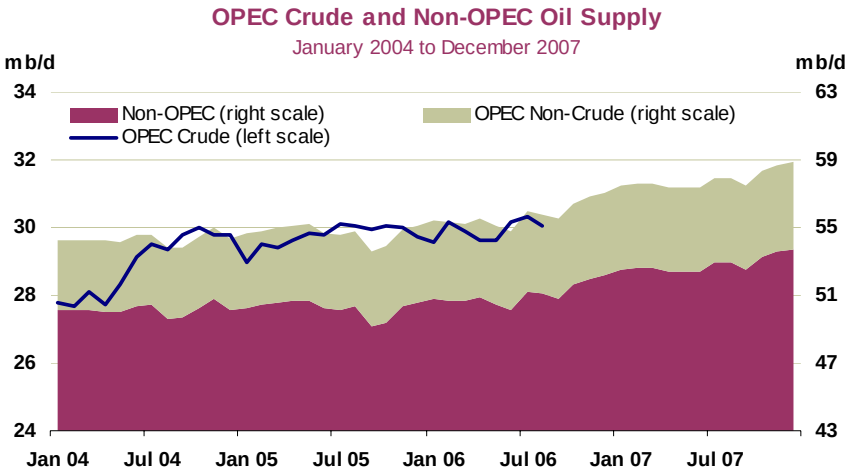


Finally, in the **FSU**, **Russian** fuel oil exports have been falling steadily since early June (by some 200 kb/d in the year to July, according to some estimates), mostly because the giant UES power utility was asked by the Russian monopoly Gazprom a few months ago to substitute part of its natural gas intake with fuel oil, thereby freeing more gas for export. This change is already likely having an impact on Russia's domestic fuel oil demand, since UES's yearly needs are estimated to represent some 5-10% of total domestic fuel oil production. Indeed, it has been reported that domestic fuel oil prices increased by some 6% in July – in a month when prices normally plunge. By the same token, fuel oil exports will continue to diminish.

SUPPLY

Summary

- **World oil supply** fell by 400 kb/d in August compared to July, and reached 85.8 mb/d. Lower North Sea production and weaker Iranian and Saudi Arabian exports were key contributors. However, the July baseline was revised up by 730 kb/d amid evidence of markedly higher production from OPEC, the North Sea and the FSU.
- **August output stood 975 kb/d above year-ago levels,** despite falling versus July. Non-OECD supply stands 1 mb/d above August 2005, OPEC total liquids supply is up by 220 kb/d but OECD production lags last year by 335 kb/d. 2Q supply growth slowed to 210 kb/d on an annual basis after the recovery to 1.1 mb/d seen in 1Q. Outages affecting OPEC, the USA and the North Sea have limited global supply growth.
- **Non-OPEC supply** for 2006 is now forecast at 51.0 mb/d, a 60 kb/d downward revision from last month. Weaker supply from Canada, Mexico, the North Sea, Brazil and Angola, focused in 4Q, account for most of the revision. This report, however, has retained a deliberately conservative output profile for a number of oilfields and expansion projects in 2006 (notably Prudhoe Bay, forecast US GOM hurricane outages, and elements of Canadian and FSU supply) suggesting some potential upside from the current 810 kb/d growth forecast. Lower supply expectations for Mexico, the UK, Brazil and Angola carry forward to trim the 2007 estimate by 145 kb/d, to 52.8 mb/d. Nonetheless, 2007 non-OPEC growth is still seen at an impressive 1.8 mb/d.
- **OPEC crude supply** for August is estimated at 30.0 mb/d, 270 kb/d below a revised July level of 30.3 mb/d. In August, modest increases of 10-50 kb/d from Venezuela, Kuwait and Nigeria were eclipsed by lower Iranian supply, and more modest reductions from Iraq, Indonesia and the UAE. Iraqi and Nigerian production stabilised in August at 2.0 mb/d and 2.3 mb/d respectively, although security issues affecting crude offtake continue to hamper wellhead production in both countries. Higher exports from Iran and Saudi Arabia caused a 545 kb/d upward revision to July OPEC supply. Effective OPEC spare capacity remains below 2 mb/d.



- The **'call on OPEC crude and stock change'** remains unchanged from last month, at 28.9 mb/d and 28.4 mb/d for 2006 and 2007 respectively. However, demand side reductions for 3Q 2006 and lower non-OPEC 4Q 2006 supply exacerbate the traditional 4Q build in the call, which this year averages 29.5 mb/d. Next year's call is uniformly 0.5 mb/d below this year's levels. However, the impact of a notionally lower call has to be placed in perspective against a very thin margin of OPEC spare capacity and the potential unravelling of a currently high 'miscellaneous to balance'.
- **Crude and condensate quality for the 2006 to 2011** period shows a heavier average barrel, with API falling from 32.7° to 32.5°. However, supplies are likely to become marginally sweeter, with global sulphur content falling from 1.18% to 1.16%. The Middle East region sees supplies becoming lighter and sweeter, with a focus on condensate developments and Saudi Arabia's shift to a better quality crude slate. Output quality from the FSU also improves. Significant production increases from Latin America and Africa result in a heavier regional supply barrel, albeit one that becomes marginally sweeter. Sulphur and API gravity both deteriorate in North America.

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 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 for August is estimated at 30.0 mb/d. This was 270 kb/d lower than an upwardly revised July level of 30.3 mb/d. In August, modest increases in the 10-50 kb/d range from Venezuela, Kuwait and Nigeria were eclipsed by lower Iranian supply, and more modest reductions from Iraq, Indonesia and the UAE. However, August changes were over-shadowed by a 545 kb/d upward revision to July supply. This in turn followed evidence of markedly higher exports in July from Iran and Saudi Arabia compared to preliminary estimates made a month ago. Time lags affecting tanker tracking data and other market intelligence mean that OPEC supply estimates for the most recent months may be subject to subsequent revision when more complete information becomes available.

OPEC Crude Production
(million barrels per day)

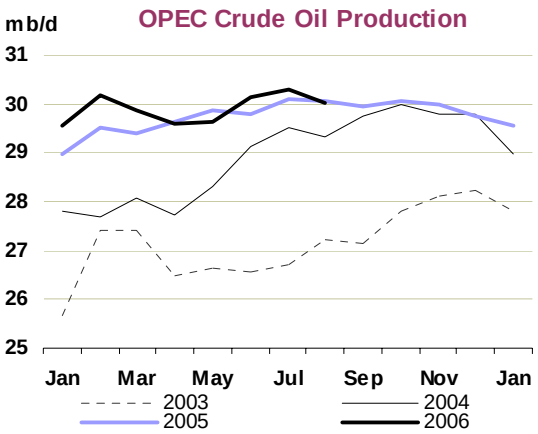
	1 July 2005 Target	August 2006 Production	Sustainable Production Capacity[1]	Spare Capacity vs Aug 2006 Production	Production vs. Target
Algeria	0.89	1.33	1.37	0.04	0.44
Indonesia	1.45	0.86	0.95	0.09	-0.59
Iran	4.11	4.00	4.00	0.00	-0.11
Kuwait[2]	2.25	2.50	2.60	0.10	0.25
Libya	1.50	1.72	1.72	0.00	0.22
Nigeria	2.31	2.27	2.60	0.33	-0.04
Qatar	0.73	0.84	0.87	0.03	0.11
Saudi Arabia[2]	9.10	9.35	10.80	1.45	0.25
UAE	2.44	2.64	2.70	0.06	0.20
Venezuela[3]	3.22	2.53	2.70	0.18	-0.70
Subtotal	**28.00**	**28.04**	**30.31**	**2.27**	**0.04**
Iraq		2.00	2.50	0.50	
Total		**30.04**	**32.81**	**2.77**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.68)*	

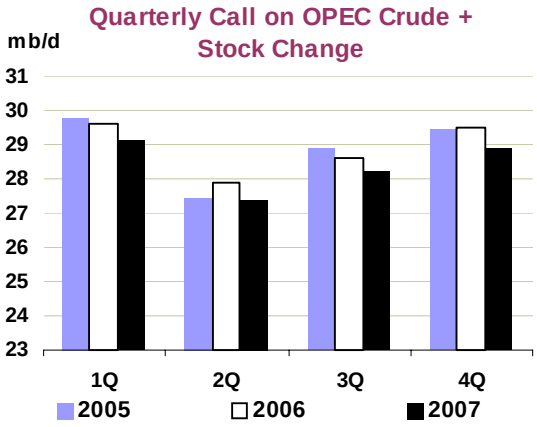
1 Capacity levels can be reached within 30 days and sustained for 90 days
2 Includes half of Neutral Zone Production
3 Includes Orinoco extra-heavy oil assumed at 565 kb/d in August

OPEC supply has now spent the past 20 months oscillating within a very narrow, 29.5 mb/d to 30.5 mb/d range. To varying degrees, this reflects members' unwillingness and/or inability to produce or market crude above these levels. Factors mitigating against a substantial further rise in OPEC supply in recent months include:

- a mismatch between the quality of the incremental barrel required by refiners and that potentially offered by Arab Gulf producers;
- an associated divergence between actual and market clearing price differentials;
- unscheduled, but widespread, production outages within OPEC;
- infrastructural constraints due to pipeline availability and gas flaring restrictions;
- delays in capacity expansion projects;
- apparently healthy OECD crude oil stock levels compared to historical levels.

While there is no shortage of prompt OPEC crude supply, market focus remains on the thin margin of spare capacity. Although OPEC supply is assessed to have fallen in August, coming from a higher base this now implies a lower level of spare OPEC capacity than estimated in last month's report, at some 1.7 mb/d on an effective basis (net of Indonesia, Iraq, Nigeria and Venezuela). That said, developments in the past month regarding production outages from Alaska, Nigeria and Iraq have not worsened. There are also indications that meteorologists are cutting their expectations for Atlantic hurricane activity this year compared to earlier forecasts of stronger-than-normal storm activity. Despite this, limited OPEC supply flexibility is likely to remain a market concern at least until the storm season and peak winter demand passes.





At the time of writing, most commentators expected no change in OPEC's production ceiling at the ministerial meeting scheduled for 11 September in Vienna. High prices, the hurricane season, a seasonal rise in oil demand and continued production outages and geopolitical risks overhanging Iraq, Iran, Nigeria and others are cited as likely to pre-empt any immediate moves by the cartel to stem a rise in crude oil stocks. However, there appears to be a growing consensus that production cuts could regain centre stage in 2007, assuming widespread expectations of strong non-OPEC supply growth are realised.

Iraqi supply continues to hover around 2.0 mb/d. July's estimate was revised marginally higher to 2.06 mb/d, with higher Basrah exports counteracting lower than originally estimated Kirkuk exports and internal crude use. Flows of crude along the northern export pipeline to Ceyhan only recommenced on 29 August after having been halted again by attacks from insurgents in early July. As a result, no crude was lifted from Ceyhan in August, so exports were limited to 1.63 mb/d from Basrah and some 14 kb/d of cross border deliveries into Syria. With internal refinery runs blighted by repeated power outages and pipeline disruptions and local crude demand restricted to 360 kb/d, net supply in August is estimated at 2.0 mb/d.

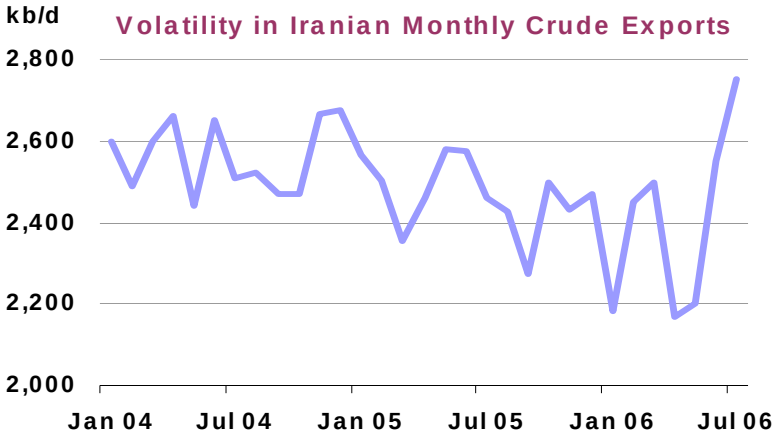
The state marketing concern, SOMO, released a call for tenders for 6 mb of Kirkuk crude on 3 September, saying that the crude was already in storage at Ceyhan. Press reports however were at odds with this latter statement, suggesting storage of less than 2 mb when the pipeline ceased shipments again on 3 September. Bearing in mind that storage was at minimum levels at end-July, that no flows were reported for the bulk of August and that flows during 29 August through 3 September were at or below 400 kb/d, the highest stock level seems unlikely. It is uncertain therefore whether September Ceyhan exports can attain the 200 kb/d suggested by the tender, leaving at best a scheduled 1.7 mb/d from Basrah and production potentially constrained around 2.1 mb/d unless pipeline and refinery offtake constraints can be addressed.

The perils of assessing near-month **Iranian** crude supply were again illustrated in the past month, as consolidated export data for July came in significantly higher than preliminary estimates. Several tanker tracking agencies showed upward revisions of 300 kb/d or more for Iranian shipments compared to earlier estimates. As a result, this report now sees Iranian supply of 4.25 mb/d in July, comprising 1.5 mb/d of domestic crude runs and 2.75 mb/d of exports.

July's surge was driven not by sharply higher wellhead production, but rather by a further draw-down in heavy/sour Soroush-Nowruz crude stored offshore in VLCCs. Market intelligence reported 6 mb in storage in September 2005, some 14 mb in January 2006 and up to 20 mb at mid-year. As noted last month, most of this crude has now been disposed of, either via increased exports or as the crude (plus blended condensate) has been refined locally in the Bandar Abbas refinery. Reports in the past month would tend to suggest that August supply levels should be less prone to distortion by exaggerated swings in storage than in July. Early tanker tracking data suggests, moreover, that exports could have fallen back to a more "normal" level of 2.5 mb/d in August and with that, supply nearer to 4.0 mb/d.

Prospects for raising Iranian production capacity significantly beyond the current 4.0 mb/d hinge on progress in new field developments such as the onshore Azadegan and Yadavaran projects. Japan's Inpex denied reports that it faced a 15 September deadline to begin work at the 260 kb/d Azadegan

project and suggested that work will commence once land mines left over from the Iran-Iraq war were cleared. Press reports have suggested that cost inflation is another factor delaying drilling but that France's Total is considering taking a stake in the project.



Saudi Arabian supply, like Iran's, has been revised up on the basis of higher consolidated export numbers. In this instance, June and July supply is revised up 150 kb/d to 9.35 mb/d, recovering after the sharp cut in production seen in April, when refinery maintenance in consuming countries reduced demand. Initial indications suggest stable output in August, although this too may be subject to revision. However, there have been no reports of calls for incremental Saudi oil in light of disruptions to Alaska's Prudhoe Bay output.

Impressive plans aimed at boosting Saudi capacity in excess of 12 mb/d are already being enacted. In addition, press reports in early September cited an earlier article from a former Saudi Aramco executive who suggested that the next phase of Saudi capacity expansion involving the Manifa field might best be achieved by a joint venture between Saudi Aramco and a major IOC. Hitherto, IOCs have been precluded from direct upstream involvement.

August saw the gradual recovery of Bonny Light supply in **Nigeria** following an accidental pipeline rupture on 21 July. In all, little change was recorded versus July supply, and total August Nigerian output is estimated at 2.27 mb/d. Force majeure declared on Bonny Light exports on 26 July was lifted on 7 September, although limited export volumes continued through August. Renewed pipeline sabotage affecting 50 kb/d of Brass River output from 24 August has left close to 600 kb/d of Nigerian production shut-in at the time of writing, albeit this is down from a July peak of 785 kb/d.

However, recent developments suggest progress in reactivating further supply could slow for the time being. Oil unions are planning a three day strike from 13 September, partly in protest at deteriorating security conditions facing oil workers. Frequent previous instances of industrial action have failed to significantly affect production, although unions have suggested that exports will be impacted this time round. Perhaps more seriously, Shell reiterated on 5 September that it has no immediate plans to re-enter the western part of the Niger Delta to reactivate over 450 kb/d of production which has been partially or wholly shut-in since the start of the year.

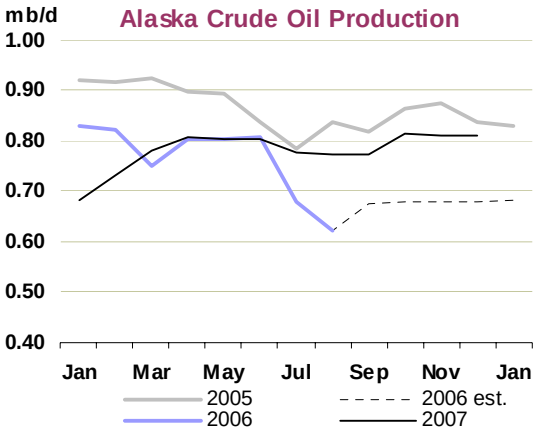
Venezuelan supply recovered in August by some 55 kb/d to 2.53 mb/d with the end of maintenance at the Hamaca heavy crude upgrader and renewed capacity operation at the Sincor upgrader, which was affected by an unscheduled outage in June and July. Further recovery of some 60-70 kb/d in Orinoco supply is possible for September, although it remains to be seen whether declining conventional crude output offsets this increase.

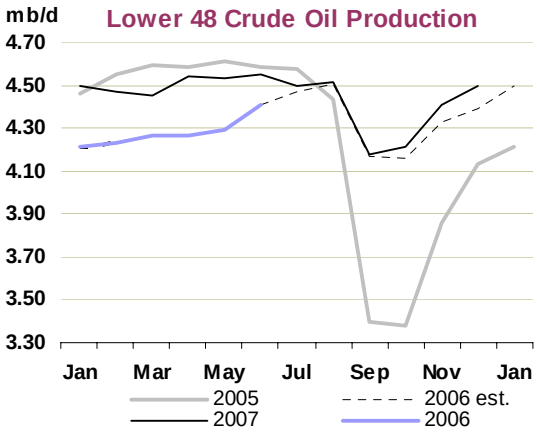
In August, Venezuela's Congress approved measures to boost income tax at the four Orinoco projects from 34% to 50%. In addition, Venezuela wants to obtain a minimum 51% to 60% stake in the four projects compared to current minority ownership. While Venezuela's increasingly hawkish attitude towards western company upstream involvement may defer further IOC investment in Orinoco heavy oil, there are signs of a greater role being granted to Chinese companies. China National Petroleum Corporation (CNPC) and Venezuela's PDVSA in August signed an agreement whereby joint production from Orinoco reserves will build to 200 kb/d by 2010. The four existing joint ventures with western IOCs amount to some 630 kb/d of heavy crude production which counts towards Venezuela's OPEC production quota.

OECD

North America

US – Alaska August actual, others estimated: US oil supply in August fell by 35 kb/d to 7.37 mb/d (including 5.13 mb/d of crude), with lower Alaskan supply counteracting higher GOM production. The impact of August's partial closure of the Prudhoe Bay field in Alaska is discussed below. In addition to the Prudhoe Bay outage caused by pipeline leaks, Alaskan output was further reduced in August by an unrelated gas compressor outage at Prudhoe Bay and a one month scheduled maintenance stoppage at the Endicott field which began on 9 August. Nonetheless, Alaskan production has been revised up for the August to October period now that partial Prudhoe Bay output has been secured. A further contribution comes from an earlier-than-anticipated start in August at satellites to the Alpine field. This report had previously assumed a September start-up.





State-specific production data for April and aggregate US production figures for May-August show GOM production running within 10 kb/d of this report's forecast. August production is estimated to have been close to the 1.55 mb/d evident prior to last year's hurricanes. This report's assumption of a five year average storm outage level for the GOM suggests average offline capacity of 275 kb/d for the remainder of 2006. While it is too early to yet write off this season's storm impact, there are tentative signs that forecasters are scaling back expectations for this year's hurricanes. This factor, allied to reports of recovering Mars production are indicative of possible upward revision to our 2006 GOM forecast in the absence of unexpected developments.

Mid-term GOM prospects received a boost with reports that the Typhoon facilities decommissioned after last year's storms could re-enter service in 2008. Chevron, which sold its stake in Typhoon to Helix Energy, separately announced a successful production test at the Jack field. This could signal the initial development of some 15 billion barrels of oil equivalent in resources held in Lower Tertiary formations in the US Gulf. Jack is the deepest successful well test made in the Gulf, at some 30,000 feet. Production from Jack may begin around 2012/2013.

Canada – June actual: While Canadian oil supply for 2007 is held unchanged at 3.38 mb/d, this year's forecast is trimmed by 20 kb/d to 3.21 mb/d. Revisions are driven by weaker-than-expected output of crude (conventional and non-conventional) and NGL from western Canada in June (-65 kb/d versus last month), followed by lower expectations for 4Q 2006 from offshore Newfoundland (-75 kb/d versus last month). The return from maintenance of the Terra Nova FPSO has been pushed back from October to November and expectations of production levels by end-year have also been scaled back to around 100 kb/d from 135 kb/d. Canadian supply growth of 165 kb/d in 2007 is centred on Alberta bitumen and syncrude, plus a now-higher estimate for Newfoundland offshore supply following new wells being added at the White Rose field.

Update on Alaska's Prudhoe Bay Production Closure

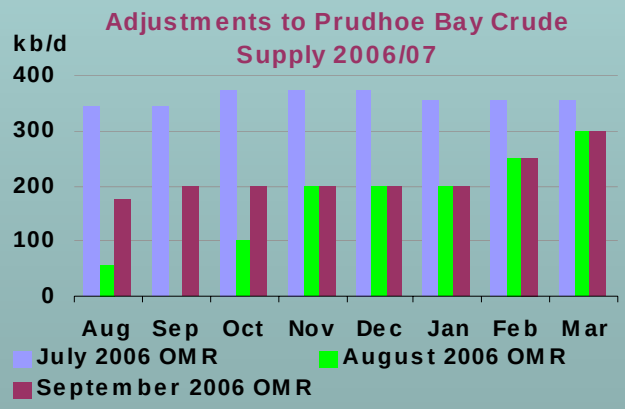
BP was forced to shut-in production at the 400 kb/d capacity Alaskan Prudhoe Bay field in early August following the discovery of minor leaks on its key transit pipelines feeding the main Trans-Alaska Pipeline System (TAPS). The leaks were caused by corrosion in a section of transit pipeline in the eastern portion of the field. Last month's report took a deliberately conservative view of likely production recovery at Prudhoe Bay until further details of planned remedial action became known. In the event, some 200 kb/d of oil production in the western half of the field was reinstated almost immediately, as no pipeline damage was detected on that segment of the field. As such, earlier fears that partial cessation of the TAPS trunkline operations might become necessary were removed.

On 7 September, BP provided the US House of Representatives Energy and Commerce Committee with a number of options it is considering for reactivating production in the eastern portion of Prudhoe Bay. The company was due to submit to the Department of Transportation by 9 September its plans for the eastern transit lines. For now the options appear to be:

- partial restart of the eastern transit line, possibly by end-September, if no further corrosion is detected or;
- the temporary re-routing of all eastern Prudhoe production via nearby Endicott and Lisburne field transit lines to the TAPS line, potentially by end-October.

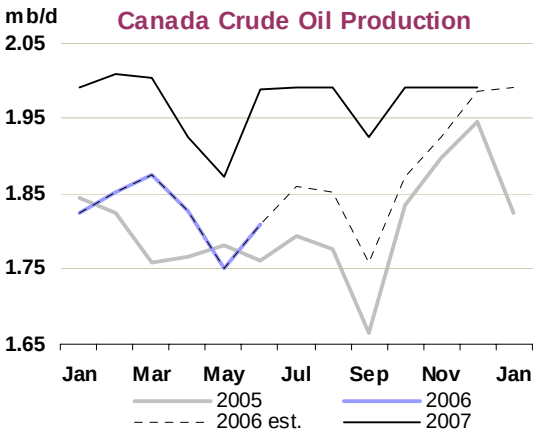
Several US politicians within and outside the Committee were critical of the company's apparent decision to defer pipeline pigging[1], which they claim might have helped prevent the pipeline closure.

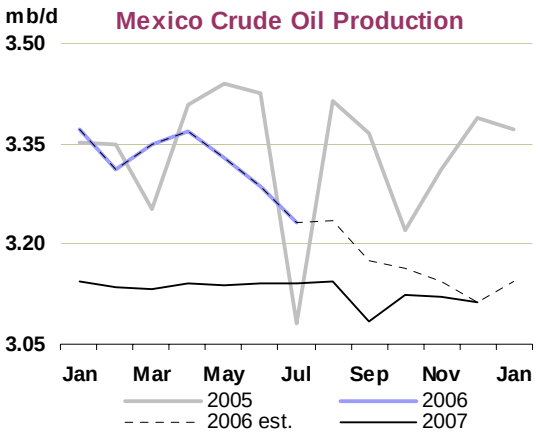
While newswires have suggested the latter recovery option could involve complete reactivation of Prudhoe's 400 kb/d capacity by end-October, this report retains a more cautious outlook, at least until BP's final plans and the response of US authorities becomes clear. This report had already, since late 2005, been working on the assumption of sub-capacity operations at Prudhoe Bay through 2006, well before the latest pipeline leaks came to light. Up to 70 production wells were shut for repair work which was envisaged to run well into 3Q 2006. Separate pipeline leaks in March 2006 further curbed Prudhoe Bay production. In fact, February 2006 was the last time Prudhoe Bay produced at capacity 400 kb/d levels. In addition, daily production data reported to the Alaskan tax authorities, and used by this report as the basis for its monthly estimates, includes some 30-40 kb/d of NGLs. The OMR normally separates out this component of supply to arrive at Prudhoe Bay and Alaskan crude oil totals, the former therefore being less than headline 400 kb/d capacity levels. Finally, BP has said that both the eastern and western transit lines will be sequentially replaced during the upcoming winter construction season, ensuring that Prudhoe Bay production is likely to remain below capacity on a monthly average basis in the short term.



For now, we have made an upward adjustment to assumed Prudhoe crude production for August, September and October from the zero to 100 kb/d range in last month's report, to levels closer to current production around 200 kb/d. Assumed production for the November 2006 to March 2007 period has been held unchanged at last month's levels, with gradual recovery from 200 kb/d in January to 300 kb/d by March. Again, these projections are subject to change as final, more detailed repair and recovery plans become evident.

[1] A pig is a piece of equipment inserted into a pipeline, which is carried along by the flow of oil or gas and is used to clean and monitor the pipeline's internal condition.



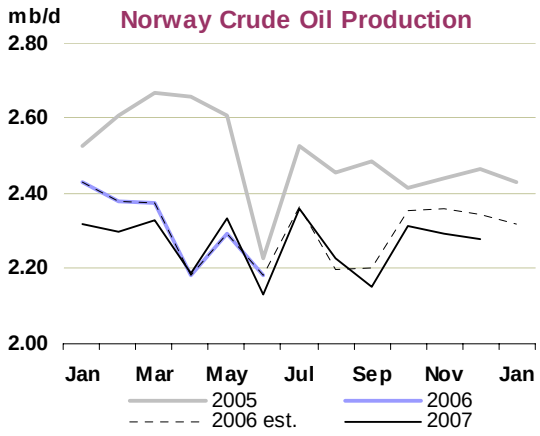


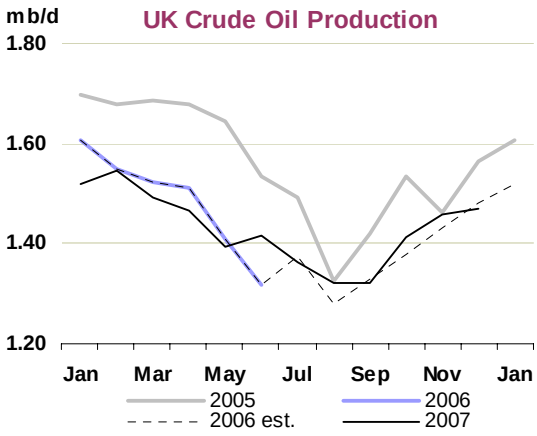
Mexico – July actual: A further 55 kb/d drop in Mexican crude production in July to 3.23 mb/d appeared to fly in the face of earlier Pemex claims of a likely second half 2006 recovery in baseload Cantarell production after well outages in the first half of the year. Normally, this report resists the temptation to make substantial changes to forecast production on the basis of a single month's production. However, July's disappointing crude performance (partly offset by stronger than expected NGL output) coincided with field-specific reports from Pemex and the Energy Ministry for mid-year production and expectations for end-year 2006 and for 2007. In line with these, we have cut forecast Mexican crude supply by 20 kb/d for 2006 and by 60 kb/d for 2007 to 3.26 mb/d and 3.13 mb/d respectively. In contrast NGL supply is revised up by 5-10 kb/d. However, crude output looks likely to level off at late-2006 levels in 2007 as incremental volumes from other fields offset Cantarell decline.

Cantarell crude output has been trimmed to 1.85 mb/d for 2006, in line with the latest Pemex estimates, suggesting a decline rate of some 9%. This accelerates to 12% in 2007, resulting in output of 1.63 mb/d. Aside from the above mentioned upward revision to NGL, a further offsetting upward revision accrues from stronger crude output at the Ku-Maloop-Zaap complex. This now appears to be producing some 50 kb/d more than our report had earlier assumed in 2006, with further production increases expected for 2007.

North Sea

Norway – June actual, July provisional: Revisions to July Norwegian data suggest scant maintenance activity that month, with total oil supply (including NGL and condensate) now seen rebounding by 360 kb/d to 2.96 mb/d from suppressed June levels. Maintenance activity is thought to have pushed August/September production back down towards 2.7 mb/d again, but a renewed rebound to 2.9 mb/d is expected for October. Although the 2006 forecast remains unchanged overall at 2.3 mb/d of crude and 550 kb/d of gas liquids, a 15 kb/d downward revision for 2007 centred on the northern Haltenbanken fields takes crude to 2.27 mb/d and NGLs to 600 kb/d.

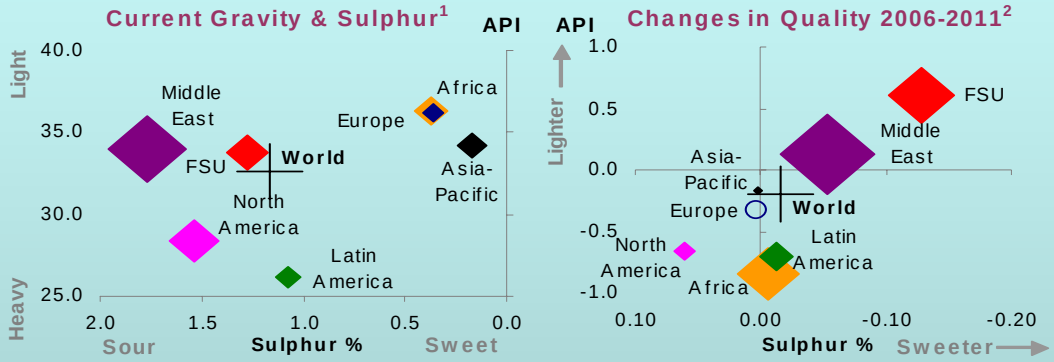




Global Crude Supply Expected to Become Heavier, Sweeter

Following July's *Medium-Term Oil Market Report,* further analysis of supply-side developments suggests a global crude slate becoming heavier but slightly sweeter over 2006-2011. Global average crude gravity moves from 32.7°API to 32.5°API, as a lighter barrel from the Middle East and FSU is countered by heavier trend production elsewhere. Meanwhile, sulphur edges down from 1.18% to 1.16%. Later issues of *OMR* and *MTOMR* will integrate more fully upstream and downstream quality developments, but for now it is worth pointing out regional variations in likely oil supply quality.

The calculations include crude oil and gas condensate only, and are therefore a reasonable proxy for the quality of feedstock likely to be available for regional refining systems. Other NGLs, biofuels, transport fuel blending components and refinery processing gains (which feature in the OMR's oil supply/demand balances) have been excluded from this analysis. For now, OPEC capacity rather than production has been used to forecast changes in regional average crude quality shown below. Clearly, this risks over-weighting the impact of changes in quality of OPEC members' production in the regional totals, although this is not thought to distort the overall trends to a significant degree.



1 Symbols proportionate in size to regional capacity/production.
2 Symbols proportionate in size to changes in regional capacity/production. Only European production in decline.

The **Middle East** region accounts for 36% of the 9.6 mb/d increase in supply during 2006-2011, and drives quality changes for future supply. Supply lightens, albeit only marginally from 34.0°API in 2006 to 34.1°API in 2011. The sweetening of the regional barrel is more pronounced, sulphur declining from 1.78% to 1.73%. Quality changes are driven by the significant new condensate streams entering production, notably from Qatar and Iran, allied to Saudi Arabia's emphasis on boosting Arab Light supply at the expense of heavier/sourer grades.

FSU supply shows the strongest improvement in quality, with the region seeing API gravity rise from 33.7° to 34.3°. At the same time sulphur content drops from 1.28% to 1.15%. The trend towards lighter, sweeter production is steady throughout the forecast period, albeit held in check by the continued predominance of Russian Urals crude. Azeri AGC crude and Shah Deniz liquids, output from Russia's Sakhalin projects and Karachaganak and Kashagan from Kazakhstan underpin the improvement in API and sulphur content.

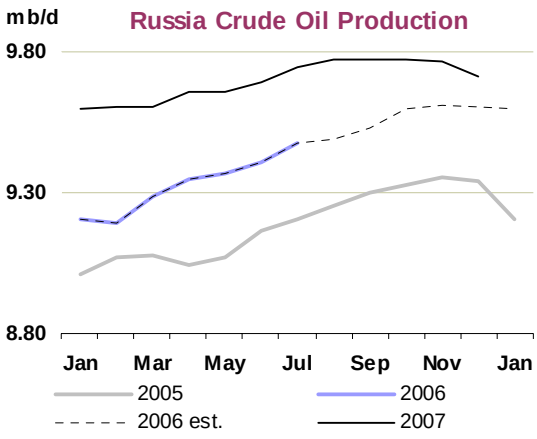
Africa and **Latin America** see a modest sweetening of supply (to 0.35% and 1.07% sulphur respectively), although production becomes heavier for both regions to the tune of 0.7-0.8°API. 2011 supply from Africa averages 35.4°API, while Latin America reaches 25.5°API. Deepwater developments in Angola and Brazil drive the quality changes in these regions, with the bulk of the change in quality occurring in 2006-2008, with a levelling off in quality thereafter.

Asia Pacific production volumes and quality see little change, with local supplies continuing to average 0.18% sulphur and 34°API in 2011. Meanwhile, maturing production volumes in **North America** and the **North Sea** are likely to become heavier. North America sees API gravity slip by 0.7° to 27.7°API, while North Sea production falls 0.4° to 35.8°API. North Sea production initially gets sourer, reaching 0.38% sulphur in 2008 but sweetens close to baseline 0.37% again in 2011. North America sees production become steadily sourer, sulphur reaching 1.60% in 2011 from 1.54% this year. An expanded contribution from Canadian oilsands drives the change in North American quality.

UK – June actual: UK offshore crude production is revised down by 30-40 kb/d for 2006 and 2007 based on weaker baseline performance from fields in the Brent and Teal systems. Operator announcements of later-than-expected start-up at the Brenda and Buzzard fields (now seen online in November and December respectively) also drag down 4Q 2006 output. Ramp-up in production at the 180 kb/d Buzzard field helps to reverse UK offshore crude output decline, which has otherwise averaged over 150 kb/d per annum this decade. In all, UK offshore crude averages 1.68 mb/d in 2006 and 1.71 mb/d in 2007, with onshore output and NGLs adding a further 270-300 kb/d.

Former Soviet Union (FSU)

Russia – July actual, August provisional: Projections of Russian oil supply are again left largely unchanged from last month's forecast (crude oil is shown below left, but net of some 300 kb/d of NGL/condensate). Final July data came in 30 kb/d above earlier expectations, while August was some 15 kb/d lower. A 5 kb/d upward revision for 2006/2007 leaves total Russian oil supply at 9.7 mb/d in 2006 and 10.0 mb/d in 2007. Growth averages 2.6% and 2.8% for the two years. While the 2006 growth accords with the latest Finance Ministry outlook, our expectations for 2007 are slightly higher than government estimates (2.1%). Nonetheless, this report is adopting a cautious attitude as regards 2007 production from former Yukos and Sibneft assets, and projections for the Sakhalin 1 project are also markedly below the operator's own expectations. In addition, further impetus to 2007 growth comes from a "normal weather" assumption which, if correct, should allow supply to significantly outstrip this year's weak first quarter levels. Recent reports of Baltic Pipleine System expansion (see below) also lend support to 2007 growth. Much of the current uncertainty over Russian supply derives from political, legislative and fiscal issues as opposed to reserves or physical production issues. While these could trim growth longer term, projects now coming to completion suggest that 2%-plus growth is readily sustainable.





As envisaged in last month's report, FSU exports nudged modestly higher in July, gaining 100 kb/d from June and averaging 8.38 mb/d, with crude oil via the Black Sea and the BTC pipeline accounting for much of the change. Further increases for crude oil are thought to have materialized in August, focused on higher Black Sea and Baltic Pipeline System (BPS) volumes, together with increased liftings from BTC at Ceyhan. Exports from the Sakhalin 1 project in the Far East also began at the very end of August, although these may not show up in significant volumes until October. Sakhalin represents a significant source of incremental Russian crude supply, with ExxonMobil targeting production of some 250 kb/d by end-2006 (although this report errs on the side of caution and defers peak production into 2007).

Baltic seaborne crude exports have been impeded recently by the cut-off of Russian supplies to Lithuania's Butinge terminal. Initial indications were that this was due to a minor pipeline leak, but with the terminal failing to feature in August and September export schedules rumours abound of political undertones regarding ownership changes for Butinge and the nearby Mazeikiu refinery. Seaborne FSU exports are scheduled to fall in September, with maintenance on the CPC pipeline feeding Kazakh volumes to Novorossiysk contributing. However Russian volumes via BPS/Primorsk look likely to hit record levels of 1.43 mb/d. State pipeline operator Transneft appears to be well on the way to attaining overall BPS capacity of 1.5 mb/d through a combination of flow additives and extra pumping stations.

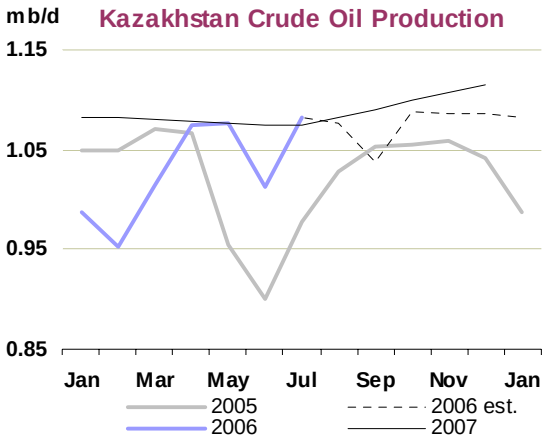
FSU Net Exports of Crude & Petroleum Products
(million barrels per day)

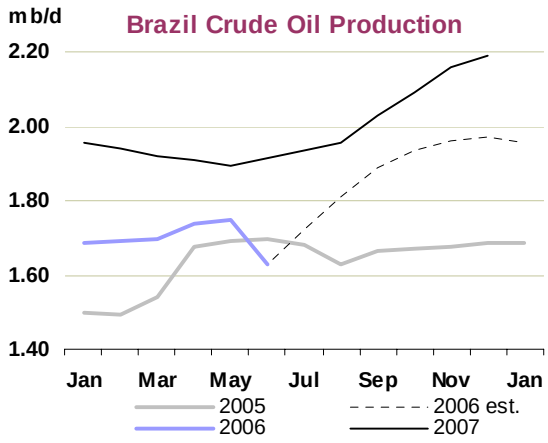
	2004	2005	3Q2005	4Q2005	1Q2006	2Q2006	May 06	Jun 06	Jul 06	Latest month vs. Jun 06	Latest month vs. Jul 05
Crude											
Black Sea	2.20	2.27	2.30	2.23	2.25	2.26	2.46	2.16	2.29	0.13	-0.04
Baltic	1.51	1.59	1.57	1.55	1.54	1.73	1.74	1.79	1.59	-0.20	0.11
Arctic/FarEast	0.25	0.19	0.22	0.17	0.10	0.11	0.13	0.12	0.17	0.05	-0.05
BTC	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.03	0.18	0.15	0.18
Crude Seaborne	3.96	4.05	4.08	3.95	3.89	4.11	4.33	4.11	4.24	0.12	0.20
Druzhba Pipeline	1.10	1.15	1.14	1.23	1.20	1.16	1.17	1.20	1.24	0.04	0.11
Other Routes	0.23	0.25	0.24	0.26	0.31	0.38	0.31	0.42	0.36	-0.06	0.14
Total Crude Exports	5.29	5.45	5.46	5.44	5.39	5.65	5.81	5.73	5.83	0.10	0.45
Of Which: Transneft	3.76	4.04	4.02	4.07	4.05	4.23	4.45	4.25	4.21	-0.04	0.29
Products											
Fuel oil	0.90	0.93	1.02	1.04	0.87	1.05	1.03	0.97	0.94	-0.03	-0.17
Gasoil	0.84	0.87	0.85	0.95	1.01	0.95	0.95	0.92	0.91	-0.01	0.07
Other Products	0.46	0.58	0.58	0.60	0.60	0.70	0.73	0.67	0.70	0.03	0.09
Total Product	2.19	2.38	2.45	2.58	2.47	2.69	2.71	2.56	2.54	-0.02	-0.01
Total Exports	7.48	7.83	7.91	8.02	7.87	8.34	8.52	8.29	8.38	0.09	0.43
Imports	0.01	0.02	0.02	0.02	0.03	0.03	0.03	0.03	0.02	-0.01	0.00
Net Exports	7.47	7.81	7.89	8.00	7.84	8.31	8.49	8.26	8.35	0.09	0.43

Sources: Petro-Logistics, IEA estimates
Note: Transneft data has been revised to exclude Russian CPC volumes.

Kazakhstan – July actual: Forecast production from Kazakhstan remains largely unchanged this month, at 1.3 mb/d for 2006 and 1.35 mb/d in 2007. This is despite markedly higher-than-anticipated output from the Tengiz field in July, where output averaged 275 kb/d, some 100 kb/d above expectations. This report had assumed June maintenance spilling into July. However, the impact on total 2006 production is muted, since we now also incorporate a 100 kb/d downward adjustment for September supply due to CPC pipeline maintenance. Liquids output from the Karachaganak field in July also came in higher than expected, although this may have been due to a post-maintenance surge, so higher output has not for now been carried through the forecast.

Several market reports in August highlighted the importance of Kazakhstan diversifying export capacity infrastructure away from traditional reliance on Russian pipelines. With expansion of the key CPC pipeline stalled due to ongoing discussions with Russia over tariffs and Bosphorus by-pass routes, focus may be turning to the recently-inaugurated pipeline to China, as well as a potential tie-up with the neighbouring BTC pipeline from Azerbaijan to Turkey. The latter is seen as being critically dependent on adequate cross-Caspian tanker capacity being available.





Other Non-OPEC

Brazil – June actual, July provisional: Brazilian supply is adjusted down by 20 kb/d for 2006 (concentrated in 3Q and 4Q) and by 60 kb/d for 2007 (heaviest in the second half of the year). This follows the release of projections by state company Petrobras on its targets for late-2006 and late-2007. While major new project start-ups appear to be running at or ahead of our own earlier capacity expectations, the implication is that baseload supply may be declining slightly faster than predicted by

this report. We have also trimmed the assumed ramp-up in production from newer project start-ups, such as Golfinho, to more closely match Petrobras' lower capacity expectations. Despite this, Brazil is still expected to generate 150-200 kb/d of crude supply growth in both 2006 and 2007, production averaging over 1.9 mb/d in 2007.

Revisions to Other Non-OPEC Estimates

Aside from adjustments discussed in the main regional sections above, non-OPEC revisions are less widespread than in last month's report. In all, non-OPEC supply is adjusted down by 60 kb/d for 2006 to 51.0 mb/d and by 145 kb/d for 2007, to average 52.8 mb/d. While 2006 revisions are heavily concentrated in 4Q, the downward adjustment for 2007 runs through the year. As already mentioned above, Mexico, the North Sea and Brazil account for much of this downgrading of expectations.

The only other significant change to 2006/2007 production comes in **Angola.** Here, as in Brazil, there are indications that the state producer (Sonangol) envisages lower 2006 production than contained in this report's earlier forecast. Again, major new deepwater project start-ups, such as Dalia and Rose, appear to be proceeding on schedule, and have restated target production at levels consistent with those used in this report. We have therefore trimmed base-load, mature production to more closely match the lower aggregate targets. Angolan 2006 output is now seen averaging 1.4 mb/d, with 1.7 mb/d expected for 2007.

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	2007	06 v 05	07 v 06	2005	2006	2007	06 v 05	07 v 06	2005	2006	2007	06 v 05	07 v 06
North America	14.09	14.16	14.46	0.07	0.30	14.09	14.16	14.41	0.07	0.25	0.00	0.00	-0.05	0.00	-0.05
Europe	5.61	5.36	5.39	-0.24	0.02	5.60	5.32	5.35	-0.28	0.03	0.00	-0.04	-0.04	-0.04	0.00
Pacific	0.58	0.55	0.63	-0.04	0.08	0.58	0.55	0.64	-0.04	0.09	0.00	0.00	0.01	0.00	0.01
Total OECD	**20.28**	**20.07**	**20.47**	**-0.21**	**0.41**	**20.28**	**20.03**	**20.40**	**-0.25**	**0.37**	**0.00**	**-0.04**	**-0.08**	**-0.04**	**-0.04**
Former USSR	11.64	12.08	12.60	0.44	0.53	11.64	12.08	12.62	0.45	0.53	0.00	0.01	0.01	0.01	0.01
Europe	0.16	0.15	0.13	-0.01	-0.01	0.16	0.15	0.13	-0.01	-0.01	0.00	0.00	0.00	0.00	0.00
China	3.62	3.71	3.75	0.10	0.03	3.62	3.71	3.75	0.09	0.04	0.00	0.00	0.00	0.00	0.00
Other Asia	2.68	2.73	2.76	0.04	0.04	2.68	2.73	2.76	0.04	0.04	0.00	0.00	0.00	0.00	0.00
Latin America	4.30	4.50	4.77	0.20	0.27	4.30	4.48	4.71	0.18	0.23	0.00	-0.02	-0.06	-0.02	-0.04
Middle East	1.86	1.76	1.72	-0.10	-0.04	1.86	1.76	1.72	-0.10	-0.04	0.00	0.00	0.00	0.00	0.00
Africa	3.72	4.05	4.59	0.33	0.54	3.72	4.04	4.57	0.33	0.53	0.00	-0.01	-0.02	-0.01	-0.01
Total Non-OECD	**27.97**	**28.97**	**30.33**	**1.00**	**1.35**	**27.97**	**28.95**	**30.26**	**0.98**	**1.31**	**0.00**	**-0.02**	**-0.07**	**-0.02**	**-0.05**
Processing Gains	1.86	1.90	1.92	0.04	0.02	1.86	1.90	1.92	0.04	0.02	0.00	0.00	0.00	0.00	0.00
Other Biofuels	0.12	0.15	0.26	0.04	0.11	0.12	0.15	0.26	0.04	0.11	0.00	0.00	0.00	0.00	0.00
Total Non-OPEC	**50.23**	**51.10**	**52.98**	**0.86**	**1.89**	**50.23**	**51.04**	**52.84**	**0.81**	**1.80**	**0.00**	**-0.06**	**-0.14**	**-0.06**	**-0.08**

OMR = Oil Market Report

OECD STOCKS

Summary

- **OECD total industry oil stocks** built by 22 mb in July, as a 30 mb increase in product stocks was only partly offset by a decline in crude inventories. The product stock build was concentrated in North America, where 'other products' saw a substantial build of 17 mb. Distillates also built in all regions, adding close to 15 mb to total inventories. A downward revision of 18 mb to the June baseline left total end-July OECD industry stocks at 2,668 mb or 3 mb higher than last year. Days of forward demand cover came to 54 days for the OECD as a whole, on par with last month and 1 day below last year.

Preliminary Industry Stock Change in July 2006 and Second Quarter 2006

(million barrels per day)

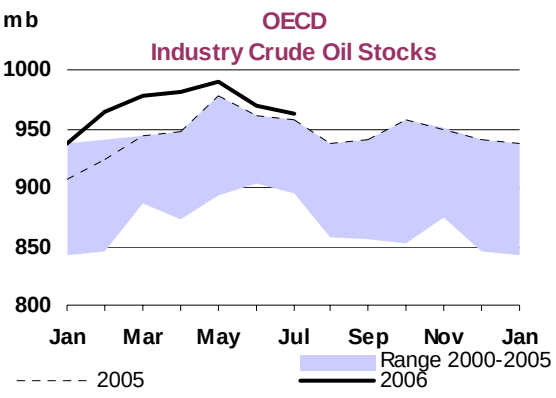
	July (preliminary)				*Second Quarter 2006*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.16**	**0.08**	**-0.16**	**-0.24**	**-0.10**	**-0.11**	**0.11**	**-0.10**
Gasoline	-0.10	-0.02	-0.04	-0.16	-0.01	-0.11	0.00	-0.12
Distillates	0.17	0.09	0.20	0.47	0.06	0.09	0.10	0.25
Residual Fuel Oil	0.00	-0.03	0.06	0.04	0.02	0.06	0.04	0.12
Other Products	0.55	0.02	0.05	0.62	0.31	-0.02	0.01	0.30
Total Products	**0.63**	**0.07**	**0.27**	**0.97**	**0.38**	**0.03**	**0.16**	**0.56**
Other Oils[1]	-0.01	-0.03	0.03	-0.02	0.08	-0.02	0.02	0.08
Total Oil	**0.46**	**0.13**	**0.13**	**0.71**	**0.36**	**-0.10**	**0.28**	**0.55**

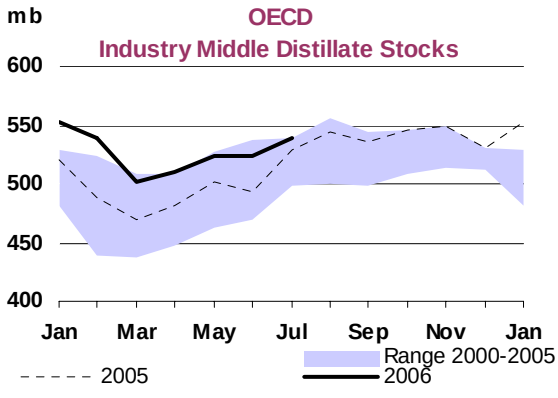
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude stocks** fell by 7 mb in July to 963 mb, some 5 mb higher than last year. The stock draw came in North America, where lower imports and domestic production were only partly offset by reduced throughputs, and in the Pacific where refinery runs picked up sharply. In Europe, crude stocks increased slightly on lower refinery runs and ample regional supplies as North Sea field maintenance took a pause in July.

- **OECD industry gasoline stocks** fell by 5 mb in July with small declines in all regions. Low gasoline stocks in the Pacific and Europe left total OECD stocks below their historical range in July, despite US inventories holding at the upper-end of their five-year range through to end-August. However, OECD European gasoline stocks are mid-range on a forward demand cover basis, reflecting structural declining consumption. Following the end to the driving season, and US gasoline stocks at seemingly comfortable levels (barring any supply disruptions), refiner focus is shifting towards middle distillate inventories ahead of the winter heating season.

- **OECD industry distillate stocks** built by 15 mb in July to 539 mb, or 10 mb higher than last year. The stock increase came from all OECD regions, although the sharpest gains were centred in the Pacific and the US, in large part due to rebounding throughputs as refiners exited maintenance. Weekly data for the US, Northwest Europe, Japan and Singapore show that middle distillate stocks continued to build in key markets in August as refinery throughput reached a seasonal peak.



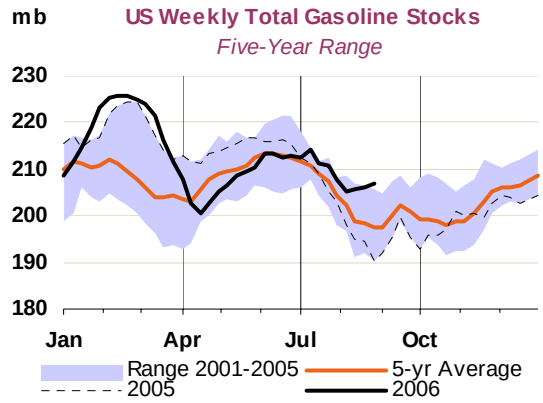


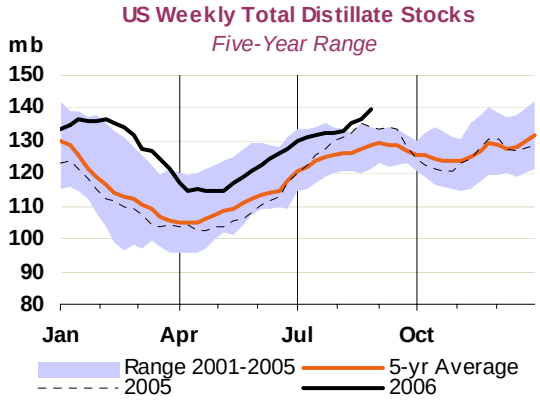
OECD Industry Stock Changes in July 2006

OECD North America

North American crude stocks fell by 5 mb in July, as a decline in the US was partly offset by a build in Mexican inventories. Lower imports contributed to the US stock draw which came despite low refinery throughputs. In addition, towards the end of July, domestic crude production slowed to its lowest level since January due to temporary maintenance on the Trans-Alaska Pipeline System. In August, US-50 crude stocks moved lower as refinery throughputs rebounded from the seasonally low levels seen in July. Total US crude production held relatively stable around 5.1 mb/d despite the Prudhoe Bay shutdown due to increases in the Gulf of Mexico. Four-week average imports were 10.3 mb/d, equal to July but 300 kb/d lower than last year. Refinery throughputs averaged 15.7 mb/d, on par with the same period last year.

The 20 mb July gain in North American product inventories originated entirely in the US. The bulk of the increase came in US other products' which built by 17 mb. Total US distillates added another 5 mb, as heating oil continued to increase in line with seasonal trends while an 8 mb addition to ultra-low-sulphur diesel (ULSD) stocks offset a draw of similar magnitude in regular diesel. Gasoline inventories bucked the trend and fell by 4 mb over the month, due to lower refinery output and seasonally strong demand, while imports held flat from the previous month.





In August, total US-50 product stocks continued to build, adding more than 12 mb. Gasoline stocks (including both finished gasoline and blending components) declined by close to 4 mb, despite higher imports. Distillates built by more than 7 mb, as a build in ULSD stocks largely outpaced a fall in regular diesel while heating oil stocks built seasonally. Other products built by 9 mb, most of which came in propane/propylene stocks, in line with seasonal trends. Although unplanned outages (including the possibility of hurricane damage) could always interrupt supplies, with gasoline stocks above the recent seasonal range and the passing of the driving season, supply concerns have ebbed. The market has therefore shifted its focus to distillate stocks ahead of the upcoming winter heating season. Although distillate stocks generally trend higher between now and the end of the year, it is worth noting that US stocks, for both diesel and for heating oil, and combined, are close to their peak five-year winter high

OECD Europe

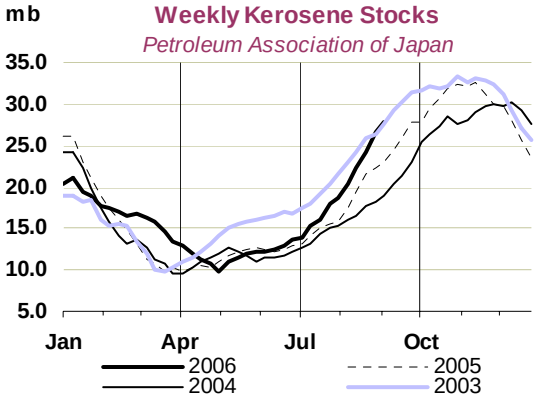
European crude oil inventories built by 2.5 mb in July to 337 mb or 1 mb lower than last year. The build was centred in the UK (+3.7 mb) and in Norway (+1.9 mb) following increasing regional supplies. North Sea crude output was higher in July, as production took a pause from maintenance-reduced levels seen in June and August. Offsetting the increase in the North Sea, stocks in the Netherlands were 3 mb lower than at the end of June.

European product stocks increased by 2.5 mb in July, as small builds in France, Germany and the Netherlands were only partly offset by declines elsewhere. The increase came in middle distillates, despite strong inland deliveries in both France and Italy. German gasoil deliveries were unchanged year-on-year as strong diesel deliveries were offset by a drop in heating oil. Despite the lower heating oil deliveries, German consumer stocks rose to 55% of capacity in July, from 50.5% at the end of June, as households started building inventories ahead of winter. While European outright gasoil prices (barge and ICE) rose to record levels in July, a strong contango means that winter futures are at an even higher level, signalling expectations of tighter supplies during the upcoming heating season.

OECD Pacific

In the Pacific, a seasonal increase in refinery throughput contributed to a 5 mb decline in crude oil stocks in July. The fall was largely centred in Korea, where higher imports only partly offset a 284 kb/d increase in refinery throughputs. In contrast, a sharp increase in Japanese crude imports offset a much steeper increase in refinery runs. Further, crude purchases by Japanese utilities were reportedly lower in July as utility stocks were ample and nuclear power plants were running near seasonal norms and bad weather reduced peak summer demand. Weekly data from the Petroleum Association of Japan (PAJ) show that, in August, Japanese onshore crude stocks fell by more than 7 mb as throughputs continued to increase seasonally. It was also reported that some of Statoil's Oseberg crude was moved from its leased Korean storage to a Tesoro refinery on the US West Coast to offset Alaskan production outages. More generally, record-high oil prices and falling refinery margins in the region started to have a dampening effect of crude demand.

Pacific product inventories built by 8 mb in July to 190 mb, 4 mb higher than last year. Middle distillate stocks built in both Japan and Korea following increasing refinery runs and slack demand. Diesel demand in Korea was particularly weak due to tax changes, but inland deliveries of heating oil in Japan were also lagging year-ago levels. Only gasoline inventories fell for the OECD Pacific as a whole, as stocks were down in Japan. Lower imports and seasonally higher gasoline demand supported the stock draw. Weekly data from PAJ show that middle distillate inventories, including gasoil/diesel, kerosene and jet fuel rose sharply in August, adding a combined 13 mb.



OECD Inventory Position at End-July and Revisions to Preliminary Data

Total OECD industry oil inventories built by 22 mb in July to 2,668 mb or 3 mb higher than last year. Only in North America are total oil stocks above last year's position. Days of forward demand cover came to 54 days for the OECD as a whole, on par with last month and 1 day below last year. On a regional basis, forward cover came to 50 days for North America, 61 days for Europe and 53 days for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for July 2006

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**14.7**	**-1.0**	**-8.2**	**5.4**	**Total Oil**	**-0.9**	**0.6**	**-2.0**	**-0.7**
Total Products	-0.7	0.7	4.2	4.2	*Versus 2004*	2.2	0.9	0.8	1.5
Other Oils[1]	-6.7	-0.2	0.2	-6.7	*Versus 2003*	1.4	2.1	-3.8	0.6
Total Oil	**7.2**	**-0.5**	**-3.8**	**2.9**	**Total Products**	**-0.7**	**0.4**	**-0.1**	**-0.3**
Versus 2004	78.3	8.9	8.5	95.7	*Versus 2004*	1.1	0.0	1.8	0.8
Versus 2003	89.8	23.7	-24.0	89.5	*Versus 2003*	0.6	1.4	-1.0	0.5

1 includes feedstocks, NGLs and other hydrocarbons

Preliminary June stock data for OECD countries has been revised down by 18 mb. The main changes came in Italian crude oil stocks and US 'other products', which were revised down by about 6 mb each. North American (US + Canada) gasoline and distillate stocks were also revised lower, adding to the total. Net changes to May data were small as changes to crude and products offset each other.

Revisions versus 11 August 2006 Oil Market Report

(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	May 06	Jun 06	May 06	Jun 06	May 06	Jun 06	May 06	Jun 06
Crude Oil	**-0.4**	**-0.5**	**-2.7**	**-4.5**	**0.0**	**-1.6**	**-3.0**	**-6.7**
Gasoline	-0.2	-3.4	0.1	0.0	0.0	0.7	-0.1	-2.7
Distillates	-0.4	-2.3	3.1	1.3	0.0	0.4	2.8	-0.5
Residual Fuel Oil	0.1	0.0	0.7	1.4	0.0	-0.2	0.8	1.2
Other Products	0.8	-7.4	-1.2	-2.2	0.0	-0.8	-0.4	-10.4
Total Products	**0.3**	**-13.0**	**2.8**	**0.5**	**0.0**	**0.1**	**3.1**	**-12.4**
Other Oils[1]	-0.2	1.2	1.0	0.4	0.0	-0.1	0.8	1.5
Total Oil	**-0.3**	**-12.4**	**1.1**	**-3.6**	**0.0**	**-1.6**	**0.9**	**-17.6**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

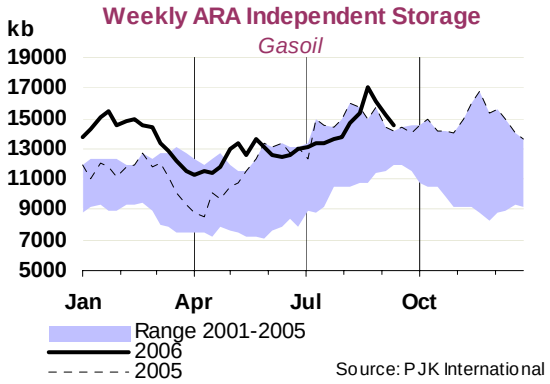
Recent Developments in ARA Independent Storage

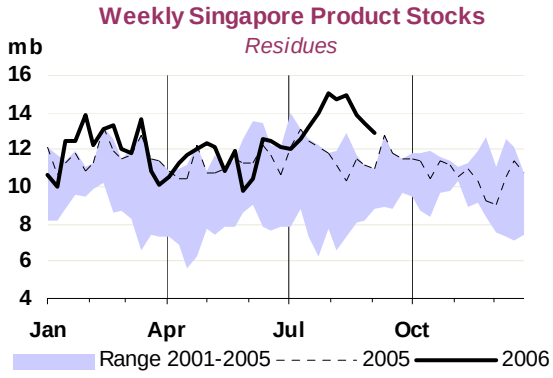
Product stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp saw mixed trends in August, with gasoline and fuel oil stocks slightly lower than end-July levels while gasoil stocks continued to build.

Gasoline stocks nudged lower last month following exports to the US, Nigeria and the UK, as well as to France and Germany. Arrivals from France, Germany, the UK, Sweden and the UAE offset some of the draw. With the driving season largely over and attention shifting to winter heating needs, traders were reducing gasoline storage and shifting the tank space to meet gasoil requirements. Further supporting the draw, a backwardation (prompt prices at a premium to forward) in gasoline paper markets encouraged traders to take gasoline out of storage.

In mid-August, gasoil inventories reached their highest level since December 1999 before falling back somewhat at the end of the month. Record gasoil prices on the Northwest Europe (NWE) barge market and a strong futures contango, attracted distillates from around the world, including India and Singapore as well as the US and Canada. These high prices would appear to reflect covering ahead of heavy September and October refinery maintenance and were perhaps a forerunner for the strong consumer demand for heating oil from Germany, France and Switzerland at the end of August. Strong jet fuel margins also encouraged refiners to maximize jet at the expense of gasoil. In addition, gasoil exports from the FSU were lower due to increased tariffs from the 20 August and seasonal Russian agricultural demand. Further, lower exports from the Mazeikiai refinery following a pipeline supply problem, further reduced FSU gasoil exports.

August fuel oil inventories fell from recent peaks following high fuel oil exports to Asia, but they continue to trend at the top of their five-year range.





Recent Developments in Singapore Stocks

Singapore product inventories, as surveyed by International Enterprise, trended sideways in August as a drop in residue stocks was offset by increases in light and middle distillates. Light distillates, including gasoline and naphtha, moved slightly higher in August. The increase was most likely due to increasing naphtha stocks following high Indian exports and as a series of cracker shutdowns reduced demand. In contrast, gasoline supplies were tightened by higher shipments to the US, a lack of Chinese exports and reduced regional supplies.

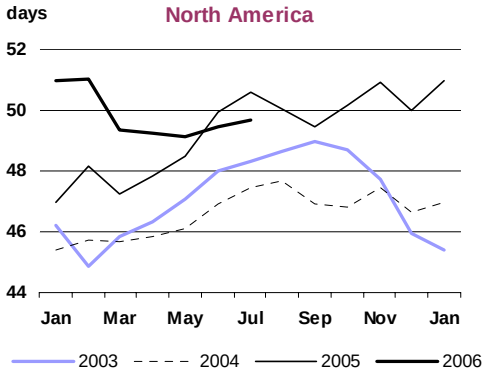
Middle distillate stocks moved higher in August as refiners cranked up throughputs and a lack of arbitrage opportunities left surplus supplies in the region. Record-high exports from India and a lack of demand from Vietnam and Indonesia added to inventories. In the first week of September, however, regional buying interest for gasoil picked up, pushing Singapore swaps into backwardation.

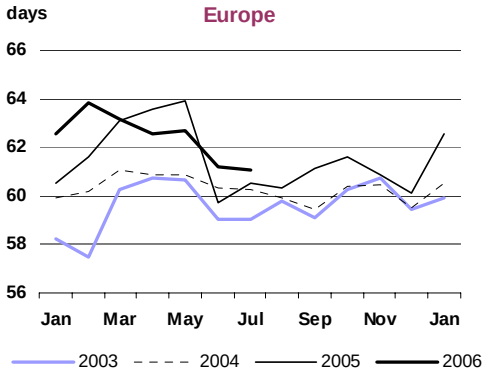
Fuel oil stocks came down from recent record highs in the second half of August, but remain well above the upper-end of their historical range. Although still at relatively high levels, arrivals from Europe and the Caribbean eased from the record levels seen since June following worsening arbitrage economics. Weak regional demand, in particular from China, persisted, pushing prompt prices lower and resulting in a record wide contango for September/October fuel oil swaps. Although reports have been made of storage capacity running tight in Singapore, separate reports show Dutch storage firm Vopak expanding fuel oil storage at its Sebarok terminal in Singapore by 1.36 mb by the end of this year.

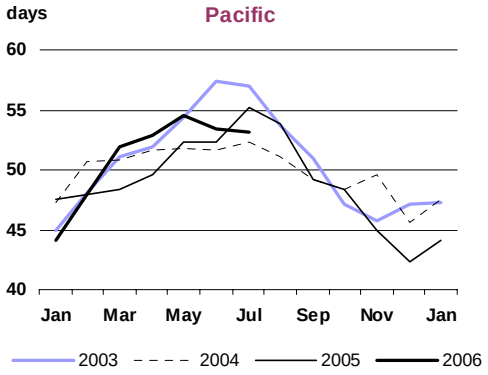
Regional OECD End-of-Month Industry Stocks

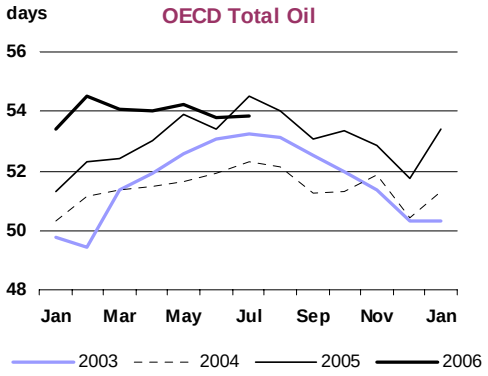
(in days of forward demand and millions barrels of total oil)

Days[1]

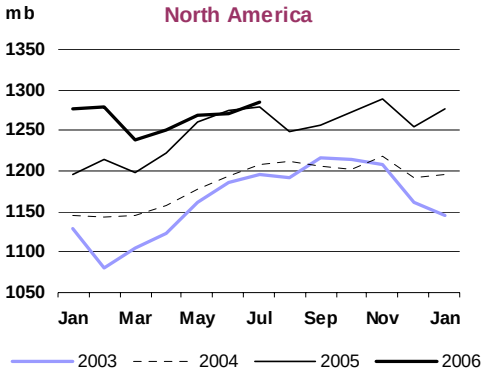


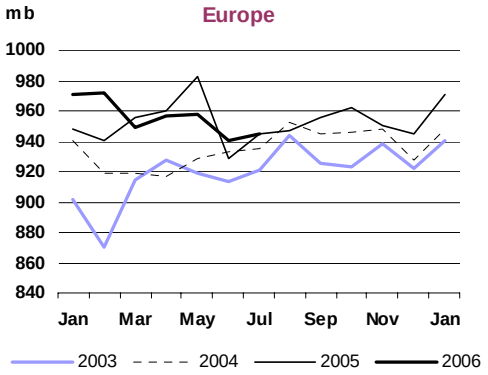


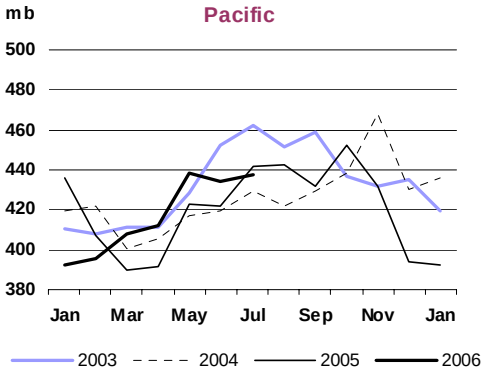


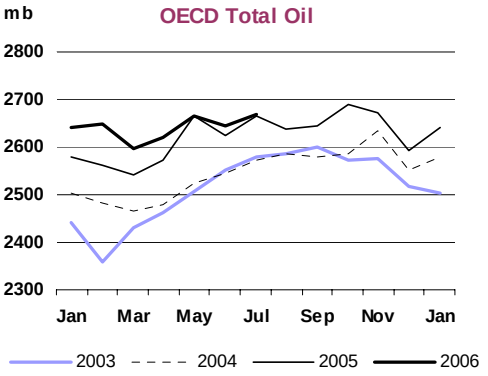


Million Barrels









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

PRICES

Summary

- **NYMEX Unleaded and RBOB gasoline plummeted by more than 30%** from early-August highs after an incident-free tail-end to the driving season. The switch to ethanol-blended product in the US has not caused any problems, and unlike last year, neither hurricane damage nor major refining outages has affected supplies so far.

- **Crude futures were dragged down well below $70/bbl by gasoline's fall** and the perception that supply is sufficient. Iran worries took a back seat for the moment after the UN ultimatum deadline passed without incident, while a stable ceasefire in Lebanon helped to calm markets.

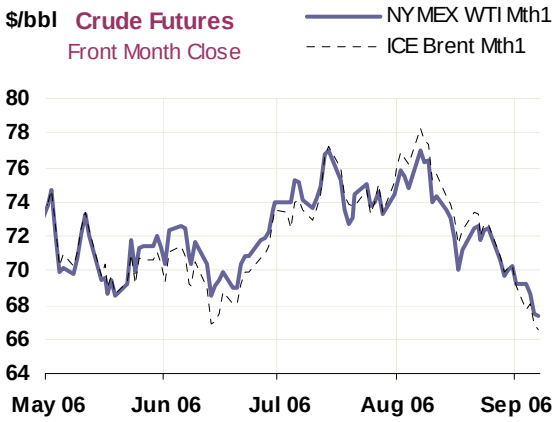
- With the driving season over, the market **focus has shifted to distillates**, which showed the smallest price losses. Global diesel and jet demand remain high, though stocks in the US, Japan and Europe are at the top of their five-year range.

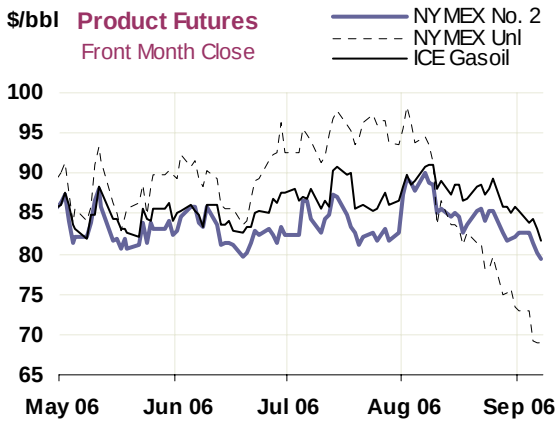
- **Gasoline's sharp fall pulled down refining margins** in all regions in August. While the fall in gasoline was most prominent in the US, its effects were global. Combined with weak fuel oil prices, several Asian refiners have indicated possible economic run cuts in September.

- Sustained demand for crude transportation combined with Alaskan supply outages kept August **freight rates above normal summer levels**.

Oil Futures Prices

Dragged down by a 30% fall in gasoline and the perception that the US summer driving season had passed without any major hiccups, oil prices fell sharply in August. Crude futures declined from their peaks in early August to five-month lows by early September, sliding well below $70/bbl. Hurricane forecasts have been revised downwards, lending reassurance to markets, as meteorologists have argued that tropical storms will increasingly veer northwards on warmer water temperatures and miss the US Gulf Coast. The first fully-blown storm to potentially threaten US oil installations, Hurricane Ernesto, changed direction and fizzled out before causing any damage.



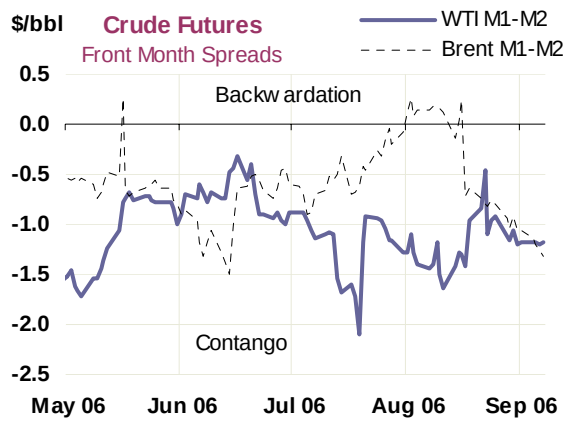


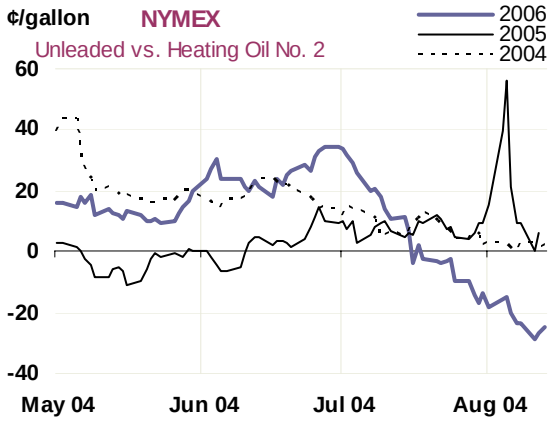
Crude supplies seemed less tight after BP's Alaskan Prudhoe Bay output recovered to some extent. So did some production in Nigeria, though this was largely cancelled out by new problems affecting ENI, and looking ahead, an oil worker strike scheduled for 13 September. The deployment of UN peacekeeping troops to Lebanon, following the ceasefire declared on 14 August, calmed fears that the military conflict with Israel could flare up again. Relatively speaking, the Iran issue took a backseat. Expectations had been high that oil prices would rise sharply after the UN Security Council's 31 August ultimatum expired. However, the fact that no immediate action was taken may ironically have put some downward pressure on crude prices, even though the issue remains far from resolved.

Crude losses were however far overshadowed by dramatic declines in both the NYMEX Unleaded and RBOB contracts, which each shed over 30% since early-August highs. US Labour Day marked the end of the summer high gasoline demand season unmarred by problems with the specification

changes, major refining outages, nor any storm-related damage so far (the hurricane season is not yet over). With the US refining complex running throughputs at nearly 230 kb/d higher than last year in the four-week average, as well as high gasoline yields and strong imports, stocks remain at the top of the five-year range. Some fund selling may have also helped to trigger the strong downturn, though arguably fundamentals were the main cause (see 'Unravelling the gasoline conundrum' below). In addition, the approaching switch to winter-specification material, which is easier to produce, should also have calmed the market.

Distillate futures, though lower, saw far smaller losses, anticipating the approach of the winter heating season. Diesel and jet fuel demand also remain strong, with the latest EIA weekly report showing year-on-year distillates consumption growth of 3.2% at 4.1 mb/d. Lastly, NYMEX Natural Gas also plummeted by over 25% on high US stocks, weighing on fuel oil prices.



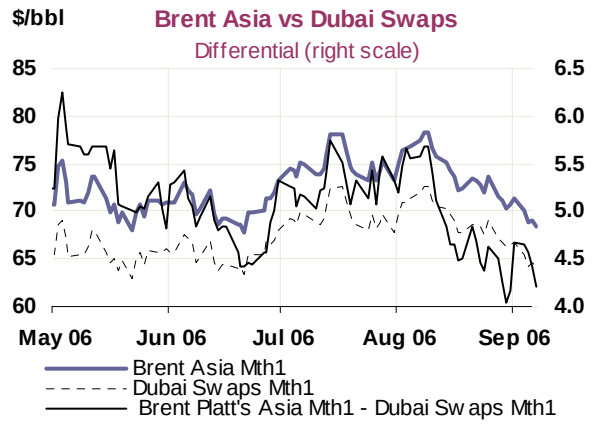


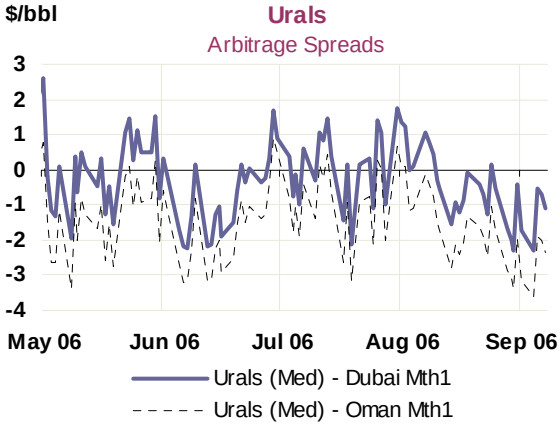
As regards market structure, ICE Brent not only returned to a contango from mid-August on the perception of significantly less tightness in the Atlantic Basin market, but widened its contango further down the forward curve. Weaker Brent has also led WTI to return to its more familiar premium, likely affecting the transatlantic arbitrage.

Crude Oil Prices

All crudes fell in August, following crude futures and a general downturn in market sentiment. Gasoline-rich grades such as Dated Brent, Bonny Light and LLS were affected most of all due to the motor fuel's pronounced losses. Crudes with a high distillate yield such as medium sour UAE grades, but also Dubai, Oman and some heavier grades that simply have a low gasoline yield, in contrast suffered less. Despite heavy North Sea maintenance, Brent was dragged down by extraordinarily weak US Gulf Coast cracking margins in August, which on average dipped to nearly zero. These relative swings have translated into shifts in arbitrage flows.

Most notably, the Brent/Dubai spread narrowed sharply, while Urals fell to a wide discount to both Oman and Dubai, opening up the possibility of flows of various crudes to the Far East. As for West African (WAF) grades, Bonny Light and other Nigerian light sweets have increased against Dated Brent, as have the heavier Angolan low-sulphur grades such as Girassol and Cabinda. Bonny Light has also increased against US Light Louisiana Sweet and in particular WTI. These developments are more due to the greater drops in Brent and WTI, but could herald a shift to increasing flows of WAF grades towards Asia.



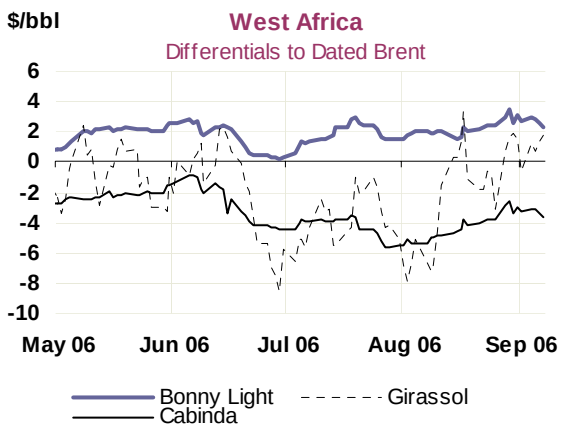


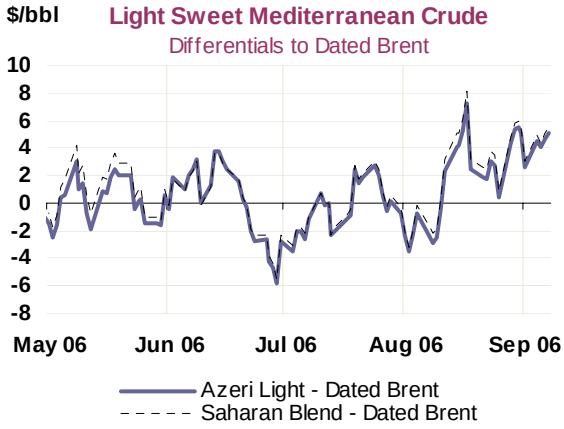
Spot Crude Oil Prices and Differentials

(monthly and weekly averages, $/bbl)

	Jun	Jul	Aug	Aug-Jul Avg Change	%	Week Commencing: 07 Aug	14 Aug	21 Aug	28 Aug	04 Sep
Crudes										
Dated Brent	68.69	73.66	73.11	-0.55	-0.7	77.30	72.21	71.47	67.39	65.20
Brent (Asia) Mth1 adjusted	70.47	74.78	74.06	-0.72	-1.0	77.01	73.54	73.03	71.01	68.79
WTI (Cushing) Mth1 adjusted	70.88	74.38	73.01	-1.37	-1.8	75.63	71.79	72.07	69.94	67.41
Urals (Northwest Europe)	64.34	69.19	68.97	-0.22	-0.3	72.61	67.74	67.67	64.85	62.64
Urals (Mediterranean)	64.51	69.20	68.49	-0.71	-1.0	71.72	67.65	67.41	64.40	62.68
Dubai Mth1 adjusted	65.22	69.17	68.77	-0.40	-0.6	71.22	68.59	67.97	66.02	63.77
Dubai Swaps Mth1 adjusted	65.60	69.50	69.20	-0.30	-0.4	71.57	68.91	68.42	66.68	64.38
Minas (Dated)	68.49	74.13	75.21	1.08	1.5	78.70	74.68	73.93	71.26	65.52
Tapis (Dated)	73.11	78.16	78.53	0.37	0.5	81.16	78.00	77.77	75.68	72.98
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	2.19	0.72	-0.10	-0.82		-1.68	-0.42	0.61	2.54	2.21
Urals (Mediterranean)	-4.18	-4.46	-4.62	-0.16		-5.58	-4.56	-4.05	-2.99	-2.52
Urals (Northwest Europe)	-4.34	-4.47	-4.14	0.33		-4.69	-4.48	-3.80	-2.54	-2.56
Dubai Mth1 adjusted - Dated Brent	-3.47	-4.49	-4.34	0.15		-6.08	-3.63	-3.50	-1.38	-1.43
Dubai Swaps - Brent Asia	-4.87	-5.28	-4.86	0.42		-5.45	-4.63	-4.61	-4.33	-4.41
Tapis (Dated)	4.43	4.50	5.42	0.92		3.86	5.79	6.30	8.29	7.78
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-0.64	-0.46	-0.59	-0.12		-0.24	-0.64	-0.77	-0.97	-0.91
Forward WTI Cushing Mth1-Mth2 adj	-0.61	-1.12	-1.08	0.04		-1.38	-1.26	-0.43	-1.13	-1.13

The Far East has not been buying as much WAF crude over the summer, in part due to some new grades from Sudan and Sakhalin entering the market. The US drew in gasoline-rich cargoes, despite WTI being at a discount to Dated Brent. Mediterranean Azeri Light and Saharan Blend in turn have seen their spreads to Bonny Light and Dated Brent improve in August, which should make them less attractive.





Delivered Crude Prices in June

The average monthly cost of delivered crude for IEA countries fell by 43 cents to $65.70/bbl in June. This marked the first month-on-month decrease since the beginning of 2006. Average monthly declines of $0.96/bbl and $0.19/bbl in European and North American IEA countries respectively offset the monthly increase of $0.46/bbl increase in the Pacific. IEA countries in the Pacific paid $67.63 for the average barrel of crude imported in June, compared to $65.92/bbl and $64.49/bbl in IEA Europe and North America respectively. The higher proportion of long-haul imports to the Pacific mean that freight costs partly account for higher CIF prices.

Refining Margins

In August, gasoline's strong decline and higher crude throughputs pulled down refining margins to their lowest levels since spring this year, while decreases in product prices generally outweighed those of crude prices. The most pronounced losses were in the US, due to the large gasoline share in the product spread, and its weakness there.

Coking margins fell most steeply, but remain by far the strongest globally. Brent cracking margins on the US Gulf Coast dropped to the lowest value in the US, unusually spending much of the month in negative territory, and averaging $0.16/bbl in August.

In contrast, European and Asian refining margins declined much less, taking strength from healthy distillate values for heating oil, diesel and jet fuel. But all Asian margins remained negative throughout August, with the exception of Dubai hydrocracking, perhaps heralding some run cuts. In Europe, hydroskimming margins in both NWE and Med markets fell further into negative territory due to fuel oil's sustained weakness.

Selected Refining Margins in Major Refining Centres

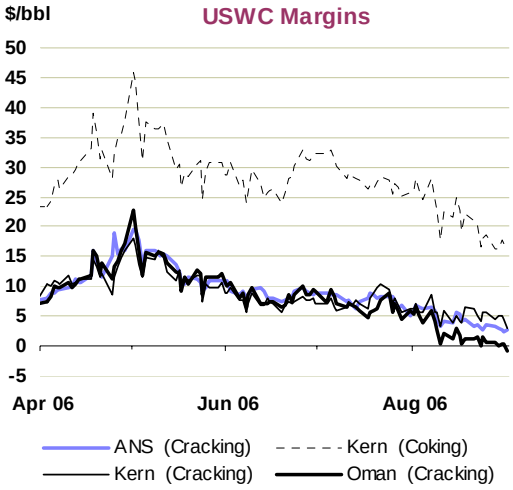
($/bbl)

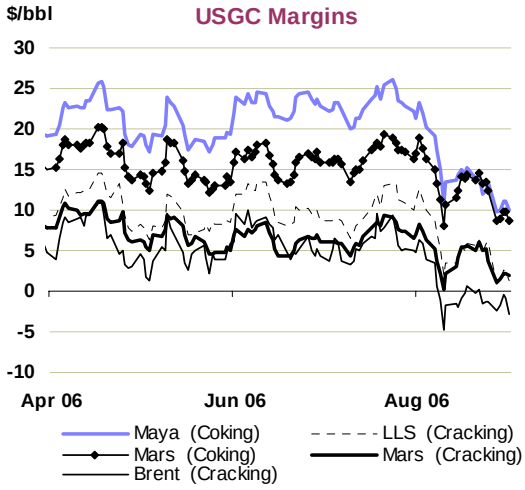
		Monthly Average			Change	Week Ending:				
		Jun 06	Jul 06	Aug 06	Aug 06-Jul 06	04 Aug	11 Aug	18 Aug	25 Aug	01 Sep
NW Europe	Brent (Cracking)	7.55	6.49	4.16	-2.33	5.52	3.67	3.36	3.50	4.88
	Urals (Cracking)	9.74	8.82	6.37	-2.46	8.04	5.98	6.23	5.80	5.77
	Brent (Hydroskimming)	-0.39	-2.43	-2.82	-0.40	-3.07	-3.73	-3.40	-2.99	-0.85
	Urals (Hydroskimming)	-0.35	-2.24	-2.86	-0.62	-3.06	-3.95	-2.64	-2.67	-1.95
Mediterranean	Es Sider (Cracking)	8.30	7.46	5.68	-1.78	8.08	6.18	5.38	4.16	4.50
	Urals (Cracking)	9.22	8.50	6.54	-1.96	8.33	6.47	6.42	5.67	5.58
	Es Sider (Hydroskimming)	-0.28	-2.02	-1.90	0.13	-1.11	-1.78	-2.13	-2.90	-1.63
	Urals (Hydroskimming)	-0.95	-2.53	-3.26	-0.72	-2.91	-3.86	-3.22	-3.53	-2.83
US Gulf Coast	Brent (Cracking)	6.66	5.90	0.16	-5.74	5.19	-0.75	-0.75	-0.82	-1.68
	LLS (Cracking)	10.60	10.02	5.73	-4.30	11.00	5.31	4.83	5.74	1.73
	Mars (Cracking)	6.45	6.97	4.26	-2.70	7.07	2.72	4.73	4.98	1.77
	Mars (Coking)	16.08	16.69	13.01	-3.68	17.26	11.64	13.25	13.50	9.21
	Maya (Coking)	23.06	23.05	14.95	-8.11	21.78	15.21	14.52	13.24	10.40
US West Coast	ANS (Cracking)	8.79	7.81	4.36	-3.45	6.16	4.84	4.70	3.21	2.71
	Kern (Cracking)	7.50	7.46	5.36	-2.10	6.19	5.79	4.71	5.38	4.43
	Oman (Cracking)	7.93	6.31	1.76	-4.55	4.97	2.62	1.08	0.53	-0.30
	Kern (Coking)	28.17	28.29	21.43	-6.85	26.16	23.17	22.08	18.83	16.85
Singapore	Dubai (Hydroskimming)	-1.32	-3.72	-4.74	-1.02	-4.22	-4.86	-5.01	-4.83	-4.66
	Tapis (Hydroskimming)	-1.42	-5.36	-7.74	-2.39	-7.41	-7.99	-7.76	-7.75	-7.93
	Dubai (Hydrocracking)	4.51	2.04	1.44	-0.60	1.93	1.39	1.03	1.39	1.49
	Tapis (Hydrocracking)	1.91	-1.68	-3.16	-1.48	-2.85	-3.40	-3.17	-3.21	-3.28
China	Cabinda (Hydroskimming)	-2.09	-4.82	-7.39	-2.57	-8.39	-8.60	-7.26	-6.91	-5.81
	Daqing (Hydroskimming)	-3.81	-8.49	-12.99	-4.50	-13.17	-13.74	-13.18	-12.45	-12.23
	Dubai (Hydroskimming)	-1.96	-4.39	-5.33	-0.94	-4.76	-5.43	-5.68	-5.42	-5.23
	Daqing (Hydrocracking)	1.50	-2.34	-5.95	-3.62	-5.51	-6.30	-6.23	-5.75	-5.84
	Dubai (Hydrocracking)	3.90	1.42	0.84	-0.58	1.41	0.82	0.34	0.77	0.86

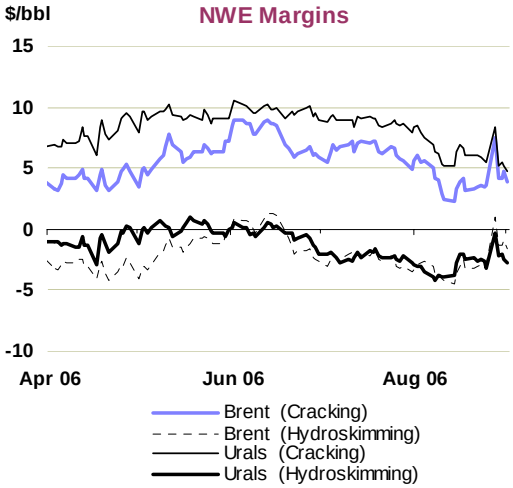
For the purposes of this report, refining margins are calculated for various complexity configurations, each optimized for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability 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.

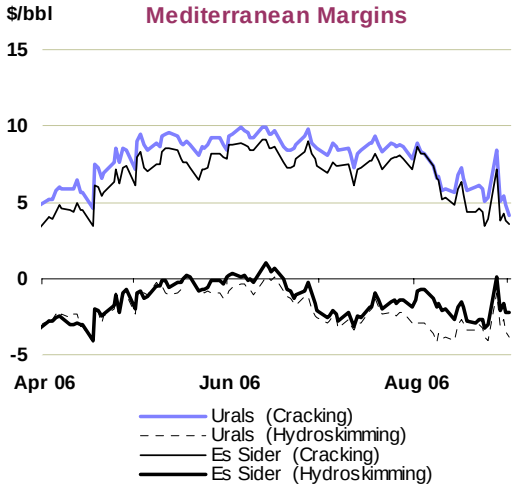
*The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations.
Sources: IEA, Purvin & Gertz Inc.

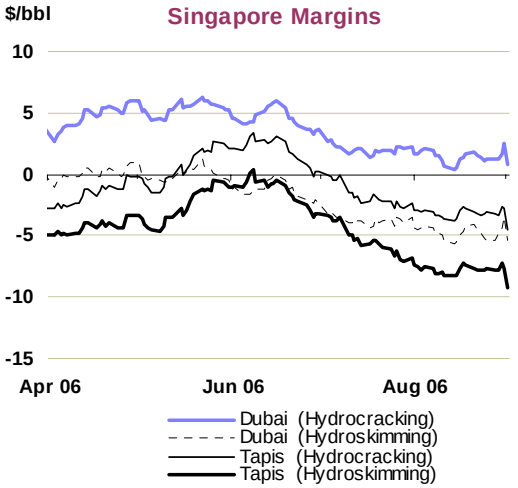
Regional Full-Cost Refining Margins

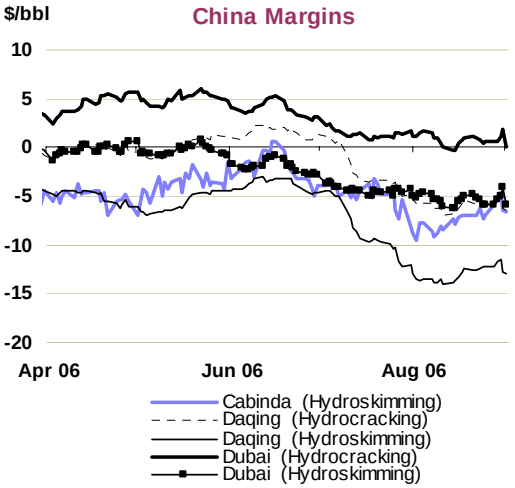






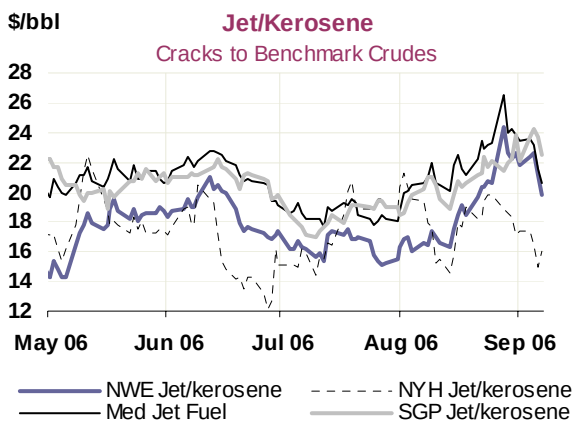


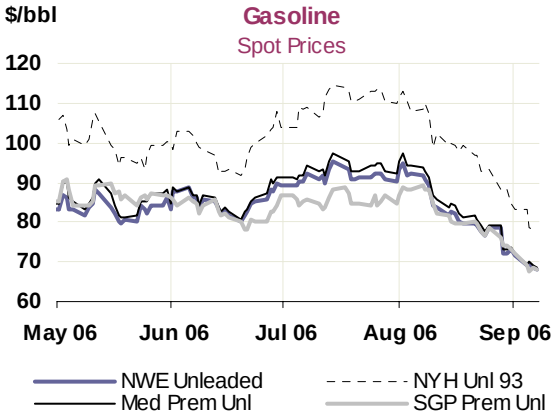




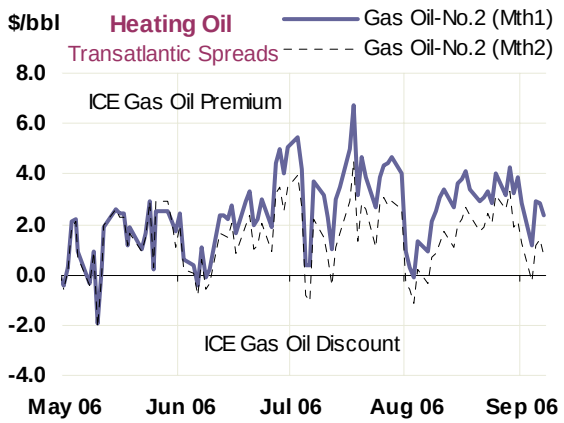
Product Prices

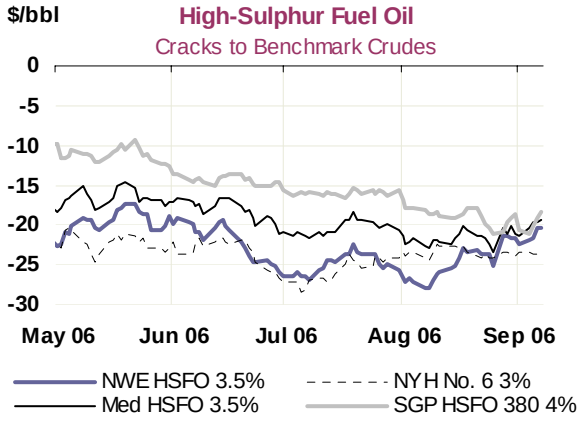
The end of the US driving season has marked a distinct shift in market focus from gasoline towards distillates. NYMEX Unleaded is now at an unseasonably wide discount to NYMEX Heating Oil. Demand for diesel and jet remains strong around the globe, with US distillate demand growth figures for the four weeks ended 1 September showing a 3.2% increase year-on-year. China has bought even more jet fuel for the October/November period than its already-high September purchases. German households are expected to continue strong tertiary stock building.





On the supply side, August gas oil exports from Russia were lower, and are expected to fall further in September due to a record-high export duty and the onset of the harvest season leading to greater domestic consumption. Jet has been tight in the Eastern Mediterranean due to the conflict in Lebanon and higher insurance costs for tankers, while South Korean refineries are set to export less jet fuel in September. On the other hand, a significant rise in ICE Gas Oil's premium to NYMEX Heating Oil should, on paper at least, encourage backhaul transatlantic arbitrage shipments to Europe. Worries about the introduction of ultra-low-sulphur diesel (ULSD) in the US are also dwindling. The situation looks less tight in Asia, where Japanese and Korean refiners will be cutting runs in September, and Japanese kerosene stocks are at the top of the four-year range.





Unravelling The Gasoline Conundrum

NYMEX Unleaded has fallen by over 30% since early August, dragging down crude prices and reviving the "funds versus fundamentals" debate. A downturn is quite normal when traders feel confident that supplies are sufficient to see the market through to the end of the US summer driving season. But the controversy was sparked due to the coincidence of an 8.4% fall on 10 August following a statement by Goldman Sachs that it was reducing the share of gasoline in the Goldman Sachs Commodity Index (GSCI), a major and much-tracked investment vehicle with over 70% of its portfolio in oil and gas futures. However, given that 10 August also coincided with the announcement of the foiled airline bomb plot in the UK and a wealth of other bearish fundamentals, any fund impact is difficult to distinguish.

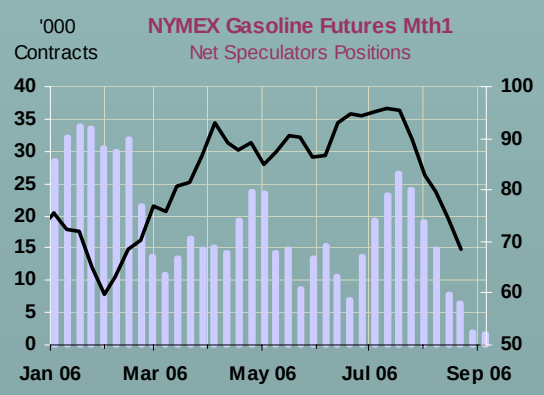
Following NYMEX's decision to phase out the benchmark Unleaded gasoline futures contract, open positions in the contract have been falling, with many switching into NYMEX's reformulated gasoline blendstock for oxygenate blending contract (RBOB). Ultimately, the transition process means that at the point where volumes and open interest are divided 50:50 between the two contracts, liquidity (the ability to buy and sell without unduly affecting price) is low. Although the GSCI had been gradually switching volumes between the two contracts, its 9 August announcement to only roll over one-third of its remaining Unleaded position into the RBOB contract (and move the rest into heating oil and crude futures) is likely to reflect liquidity concerns.

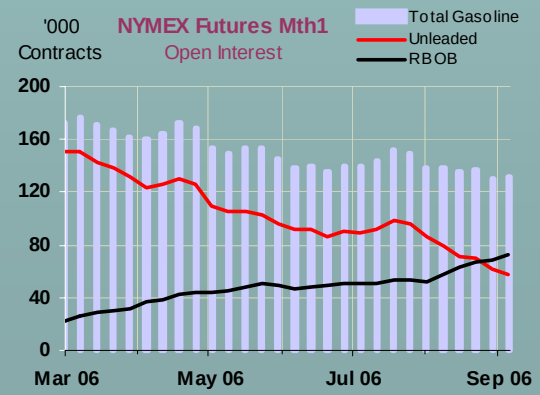
Discerning cause and effect is difficult given data limitations. The number of open positions (open interest) in the unleaded contract certainly fell, but had already been declining since the start of this year. The shifts in open interest in both contracts on 10 August were high, but larger falls had been seen two weeks previously. Further, the fall in combined open interest for the two contracts is not vastly out of line with seasonal norms. Open interest only gives a partial insight, but with index fund money often spread between the commercial and non-commercial sectors of the weekly Commodity Futures Trading Commission Commitment of Traders report (COT), deriving any further insight is difficult.

However, the COT report does show that the net-long position of non-commercials has fallen from a mid-July high of 31,984 lots to 7,463 – a pretty strong sign that the funds have changed their bullish stance. Again, this is in line with seasonal norms – speculative long positions tend to rise ahead of the spring and fall at the end of the driving season. Funds also frequently use chart levels to determine entry and exit points from the market, and the sharp price fall that started in the Unleaded contract towards the end of business on 9 August could have been the true trigger for fund liquidation. Undoubtedly, lower benchmark liquidity could have exaggerated its impact, but the fact that prices remain low suggests that the revaluation was fundamentally justified.

Moreover, a closer look at the price drop reveals a host of other possible fundamental explanations. Primarily, our preliminary data shows that there was 1.5 mb/d less offline global refinery capacity in August than July, which should have lifted global gasoline supplies. The US downstream complex also appeared to be coping well with the switch to ethanol from MTBE blending, and it was significant that the spread between higher-octane and regular grades had previously narrowed sharply. The pending move to winter specs can also increase available volumes. Further, import availability remained high throughout the season and US gasoline stocks moved to the top of the five-year range. Other factors included news of the apparently foiled bomb plot on 10 August, which contributed to a 4-5% decline in jet fuel on the initial fear that there could be a fall in travel demand similar to the post-9/11 period in the US.

Without comprehensive disaggregated data it is impossible to determine the real cause of the sharp sell-off in gasoline, and even with it, the outcome may not have been clear. However, on balance, a significant change in fundamentals from fears of tightness and shortage to a more evenly supplied market appears to have triggered fund liquidation. If there are lessons from this shift it is that the collapse in gasoline prices underscores the impact that tightness in refined products has on the crude prices; that changing product specifications causes uncertainty; and that benchmark liquidity is imperative for a smoothly functioning market.





Gasoline has plummeted in all markets, though most markedly in the US on the perception that the summer driving season has passed smoothly. There had been fears that the phase-out of MTBE could cause tightness and price spikes. There were also no major refining outages, and so far no hurricane damage to oil installations, while high product imports contributed to keeping stocks at the top of their five-year range. The NYMEX Unleaded/WTI crack has seen a truly dramatic tumble from over $22/bbl in early August to nearly zero, a low not seen since mid-February.

Fuel oil fell even further in all markets, though cracks remained more or less steady due to crude's weakness. High runs have sustained supply, while demand showed more signs of weakness. According to the EIA, US consumption is down by 19% so far in 2006, compared with the same period last year, also affected by sliding natural gas prices. Indian demand is also down compared to last year, though China has been importing more residue as an alternative refining feedstock, even while its overall consumption stayed steady. Japanese demand for low-sulphur waxy residue for direct burning has been low due to heavy rain and steady hydropower supplies, as well as fewer outages at nuclear power stations. News reports indicate lower volumes of fuel oil heading from Europe to Asia in September, as Singapore stocks remain substantially above their five-year range and cracks for both low and high-sulphur material are at all-time lows.

End-User Product Prices in August

Japanese consumers felt a sharp rise in petroleum product prices in August on strong summer demand. Gasoline and automotive diesel prices were both up by around 12% compared to July, on a US-dollar basis, before tax. In the US, net diesel prices rose by 4.5% to $0.68/litre in August, outpacing gains in net gasoline prices, which rose by less than 1% to reach $0.69/litre. In contrast, corresponding end-user prices for gasoline, diesel and domestic heating oil fell by up to 2% in August in all European countries surveyed, excepting UK gasoline. Cost trends in industrial low-sulphur fuel oil were mixed with Spain, Italy and UK prices increasing while those in France and Germany fell.

Spot Product Prices

(monthly and weekly averages, $/bbl)

	Jun	Jul	Aug	Aug-Jul		Week Commencing:					Jun	Jul	Aug
				Change	%	07 Aug	14 Aug	21 Aug	28 Aug	04 Sep			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	86.91	92.90	84.58	-8.32	-9.0	89.56	82.73	79.83	73.56	69.90	18.22	19.24	11.47
Unleaded	85.29	91.44	83.11	-8.33	-9.1	88.02	81.28	78.42	72.23	68.62	16.61	17.78	10.00
Naphtha	67.84	71.04	68.45	-2.60	-3.7	70.93	67.49	67.33	63.57	60.20	-0.84	-2.62	-4.66
Jet/Kerosene	87.30	89.93	91.93	2.00	2.2	94.07	90.20	91.82	89.53	86.53	18.61	16.27	18.82
Gasoil .2%	83.46	84.65	86.61	1.97	2.3	88.36	85.60	86.80	84.45	81.37	14.77	10.99	13.50
LSFO 1%	46.43	47.93	48.22	0.29	0.6	50.86	47.19	46.29	45.91	46.36	-22.26	-25.73	-24.89
HSFO 3.5%	46.50	48.78	48.39	-0.39	-0.8	50.33	47.99	47.50	45.39	44.17	-22.19	-24.88	-24.72
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm	84.87	91.74	83.31	-8.44	-9.2	88.71	81.74	78.18	71.40	67.60	20.36	22.54	14.81
Naphtha	66.99	69.73	67.35	-2.38	-3.4	70.01	66.52	66.23	62.43	59.16	2.48	0.53	-1.15
Jet Aviation fuel	85.81	87.76	90.39	2.63	3.0	92.65	89.07	90.41	88.17	84.51	21.30	18.56	21.89
Gasoil .2%	83.40	82.58	85.99	3.42	4.1	87.54	84.73	86.35	84.54	81.48	18.88	13.37	17.50
LSFO 1%	48.81	51.56	51.84	0.29	0.6	55.46	50.80	49.62	48.05	46.17	-15.70	-17.65	-16.65
HSFO 3.5%	46.36	48.79	46.90	-1.89	-3.9	49.39	46.40	45.31	43.31	43.06	-18.15	-20.41	-21.59
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	98.73	111.10	99.35	-11.74	-10.6	105.41	99.00	94.45	86.30	77.79	27.86	36.72	26.35
Unleaded	86.99	94.28	85.55	-8.73	-9.3	90.47	83.43	79.26	75.25	69.31	16.12	19.90	12.55
Jet/Kerosene	86.98	92.15	91.28	-0.87	-0.9	92.76	88.76	91.17	87.98	83.06	16.11	17.77	18.28
No. 2 (Heating Oil)	80.52	80.71	83.21	2.50	3.1	84.93	81.65	83.23	80.61	76.29	9.64	6.33	10.20
LSFO 1%	48.32	48.51	50.32	1.81	3.7	52.14	50.12	50.12	46.93	43.88	-22.56	-25.87	-22.69
No. 6 3%	47.42	48.71	49.51	0.79	1.6	52.19	48.97	47.98	46.35	43.88	-23.45	-25.67	-23.50
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	82.76	85.50	81.22	-4.28	-5.0	86.12	80.19	78.50	73.80	68.21	17.54	16.34	12.46
Naphtha	68.06	70.55	66.59	-3.96	-5.6	68.41	66.11	65.88	63.62	59.90	2.84	1.38	-2.18
Jet/Kerosene	86.18	87.57	89.47	1.90	2.2	91.53	88.64	89.67	88.33	86.96	20.96	18.41	20.71
Gasoil .5%	85.88	86.27	86.29	0.01	0.0	88.05	86.08	85.85	84.94	83.02	20.66	17.11	17.52
LSWR Cracked	57.68	57.59	51.77	-5.82	-10.1	54.15	51.04	51.18	48.68	45.72	-7.55	-11.58	-16.99
HSFO 180 CST	50.72	53.53	50.68	-2.85	-5.3	54.04	50.24	49.13	46.75	45.21	-14.50	-15.64	-18.09
HSFO 380 CST 4%	50.80	53.16	49.90	-3.26	-6.1	52.73	49.78	48.33	46.21	44.57	-14.42	-16.00	-18.86

Freight

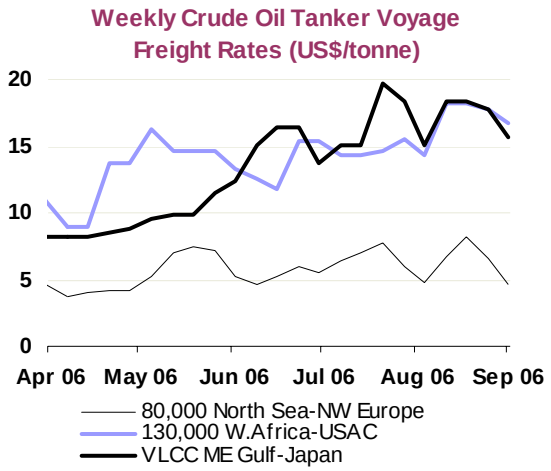
Sustained demand for crude transportation combined with Alaskan supply outages kept freight rates above normal summer levels in August. Dirty rates were boosted as US West Coast refiners turned to higher crude imports from outside the region to replace lost supplies from Prudhoe Bay. Chartering activity in the Middle East Gulf faded towards the end of August as falling refining margins and seasonal maintenance threatened crude throughputs. However, Atlantic Basin rates remained high end-month with strong demand for available crude vessels.

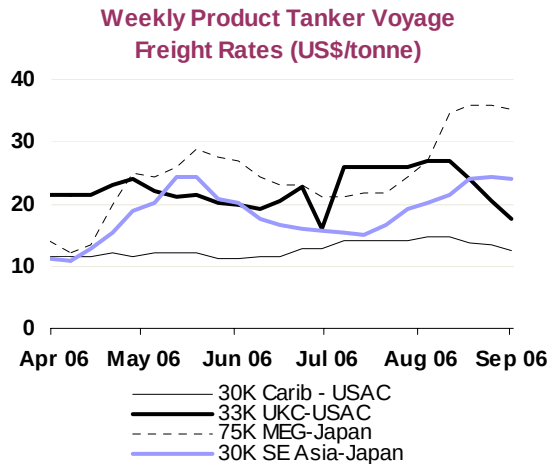
The partial closure of Prudhoe Bay, announced by BP on 6 August, instantly boosted competition for crude vessels in several regions as refiners looked to mitigate the supply loss by importing crude from elsewhere. BP itself chartered two VLCCs to bring Mediterranean crude to the US via the Gulf Coast, while other charters were made for the transportation of crude from West Africa, the Caribbean and Asia, in smaller vessels. In the emerging market of freight futures, the FFA (Forward Freight Agreement) fourth-quarter contract on the benchmark MEG-Japan VLCC route jumped 30 Worldscale points (around 20%) following BP's announcement, amid heavy trading volume. BP also paid a record fee for an express transit of the Panama Canal (which allowed it to bypass the queue of around 80 vessels and a delay of three to four days) for a 50,000-tonne vessel headed for the US West Coast.

Prompt spot VLCC rates in the Middle East Gulf to Japan rose to a peak of $19/tonne mid-August. This reflected firm vessel demand from Eastern refiners and a scarcity of double-hulled vessels as chartering of September-loading VLCCs in the Gulf began. Rates corrected downwards to $15/tonne by end-month as transportation requirements were covered. On the longer route to the US Gulf, charter rates rose by $2 in August to end the month at $25/tonne, buoyed by Alaskan outages and high US demand. August Suezmax interest in the Middle East Gulf was particularly strong. Million-barrel tanker rates to the US Gulf rose by $10/tonne in August, ending the month at $46/tonne.

West African VLCCs were in high demand in August, particularly for routes to the US. Rates to the US Gulf neared $20/tonne in September, having started August at $16/tonne. US-bound freight rates for Suezmaxes loading in West Africa and Europe also rose substantially. Some added competition for vessels came as Chinese buying of West African grades rebounded slightly after a summer of low eastbound exports from the region.

Clean freight rates east of Suez were supported by increased intra-Asian and trans-Pacific chartering activity in August. Increasing Chinese jet imports, tight product supplies on the US West Coast and product tanker demand from Australia all lent support to clean rates over the period. Spot rates for 30,000-tonne clean cargoes from Singapore to Japan rose from $20/tonne at the end of July to $28/tonne at the end of August. Transatlantic clean transportation costs fell on high vessel availability following a busy summer's product trading including profitable backhaul middle distillate flows to Europe.

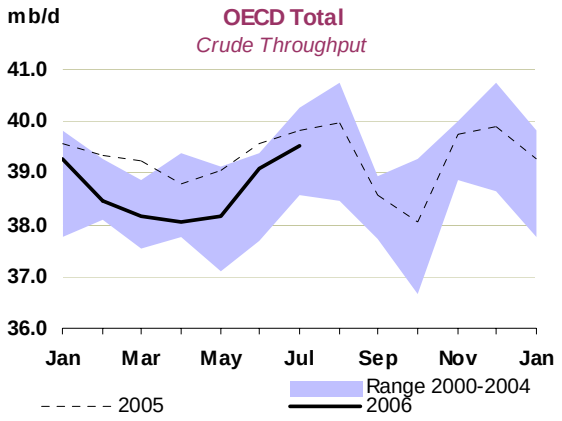


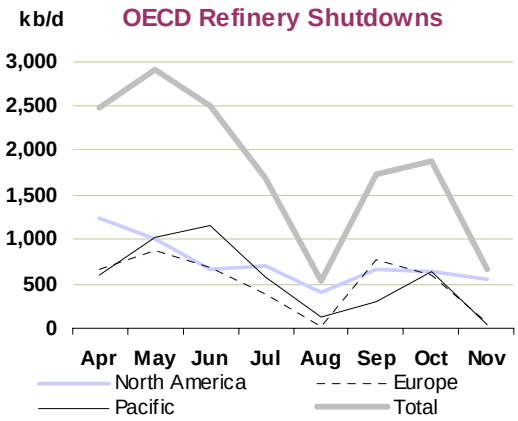


REFINING

Summary

- **OECD crude throughputs** continued to increase in July as refiners exited the Pacific maintenance season, but runs declined in the Atlantic Basin due to unplanned outages. Crude runs increased by 430 kb/d to average 39.53 mb/d in July but remained some 304 kb/d below July 2005 levels, with the US still accounting for the majority of the year-on-year shortfall. Weekly data points to higher August throughputs in the US and Japan, although reports of run cuts in Asia may limit subsequent gains in throughputs ahead of the autumn maintenance season.





- **Offline OECD refinery capacity** due to planned and unplanned maintenance reached a low point in August. OECD Offline capacity declined by 1.1 mb/d from July to a projected average of 540 kb/d. Maintenance activity is expected to increase in all OECD regions in September and reach a seasonal peak in October at around 1.9 mb/d

- **Offline Global refinery capacity** shows a similar trend, with a projected decline of 1.5 mb/d to 1.1 mb/d in August, in line with the trend in OECD countries. Global offline capacity is expected to rebound driven largely by the increase in OECD maintenance, but with a 326 kb/d increase in non-OECD planned maintenance, concentrated in Libya and Russia.

Refinery Throughput

OECD refinery throughputs increased in July by 430 kb/d to an estimated 39.53 mb/d, from a downward revised (-38 kb/d) June figure. Lower crude runs in North America and Europe, due to unplanned maintenance, partly offset the increase in Pacific runs (+783 kb/d) as seasonal maintenance ended. Average July OECD throughputs are 304 kb/d below July 2005's level, with only the Pacific region exceeding last year's level. Consequently, average OECD capacity utilisation was 87.7% in July, compared to 89.1% this time last year. Weekly data for the US and Japan indicate that OECD crude runs increased further in August, although reports of run cuts on lower refining margins in September may limit further gains ahead of the autumn maintenance season.

OECD North America

Provisional data for July show that North American crude throughputs fell by 185 kb/d to an estimated 18.68 mb/d. The decline from June's slightly revised level of 18.87 mb/d (-73 kb/d) was the result of a series of shutdowns and unplanned maintenance activity, largely in the US. Crude runs continue to lag 2005 activity levels, although the gap has narrowed to 246 kb/d, its lowest level in 12 months, thanks largely to a low 2005 baseline because of hurricane related disruptions. North American capacity utilisation rates fell to 88.6% in July, from 89.5% in June.

July US throughputs dropped to an average of 15.68 mb/d, 158 kb/d below June's downward revised (-101 kb/d) level of 15.84 mb/d. Average capacity utilisation dropped to 90.2%, from June's 91.1%. US crude runs remain 225 kb/d below the levels seen last year, effectively drawing to a close the impact of last year's hurricane season. With Murphy's Meraux refinery reaching full throughputs in July, BP's Texas City refinery is now the only refinery yet to return to full capacity. Recent industry reports suggest that Texas City crude runs are now expected to reach 300 kb/d by year-end, 100 kb/d

less than previously expected. BP's focus appears to have shifted towards a slower increase of crude throughputs, but a quicker start-up of upgrading units, with external certification of unit performance. This change in strategy should enable the refinery to increase supply of on-spec products more rapidly. As we have previously highlighted, the return to full service of this refinery has been hampered by site-specific issues and is not solely related to disruption caused by the hurricanes.

Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*	*Jul 05*	Utilisation rate[2]	
	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06	mb/d	%	Jul 06	Jul 05
OECD North America										
US[3]	14.58	14.58	14.94	15.52	15.84	15.68	-0.22	-1.4	90.17	92.83
Canada	1.83	1.80	1.52	1.50	1.81	1.76	-0.03	-1.9	87.05	88.72
Mexico	1.23	1.19	1.26	1.22	1.22	1.25	0.01	1.0	74.09	71.96
Total	17.64	17.58	17.71	18.23	18.87	18.68	-0.25	-1.3	88.59	90.86
OECD Europe										
France	1.54	1.57	1.49	1.49	1.64	1.72	-0.04	-2.1	86.95	90.12
Germany	2.31	2.08	2.30	2.37	2.34	2.27	-0.04	-1.5	93.32	93.80
Italy	1.88	1.82	1.81	1.50	1.87	1.90	-0.03	-1.5	81.73	83.12
Netherlands	1.04	1.00	0.88	0.92	0.99	0.94	-0.01	-1.2	76.54	77.08
Spain	1.21	1.24	1.20	1.22	1.26	1.19	-0.06	-5.0	93.79	98.76
UK	1.57	1.44	1.51	1.59	1.60	1.61	-0.13	-7.6	86.00	95.67
Other OECD Europe	3.90	4.01	4.18	4.20	4.23	4.13	0.08	1.9	85.58	86.75
Total	13.44	13.16	13.37	13.30	13.92	13.76	-0.23	-1.7	86.38	88.99
OECD Pacific										
Japan	4.27	4.31	3.96	3.50	3.51	3.97	0.01	0.2	84.97	84.18
Korea	2.44	2.41	2.33	2.52	2.14	2.43	0.18	8.1	94.26	87.19
Other OECD Pacific	0.67	0.69	0.69	0.62	0.65	0.69	-0.01	-2.1	85.36	81.80
Total	7.39	7.41	6.98	6.64	6.30	7.08	0.17	2.5	87.98	84.88
OECD Total	38.47	38.15	38.05	38.17	39.10	39.53	-0.30	-0.8	87.70	89.11

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

US West Coast Refinery Challenge

The challenges and problems faced by the West Coast refining industry in 2006 are highlighted in a report published by the California Energy Commission (SPRING 2006 PETROLEUM FUELS PRICE SPIKE, August 2006, http://www.energy.ca.gov). Demand for product supply from Californian refineries has been boosted by strong demand growth in Nevada and particularly Arizona, where demand is growing at around 4% per annum, resulting in Californian refineries shipping increasing amounts of finished products out of the state. This in turn is leading to higher imports of finished products, increased port congestion and delays in product supply to Californian markets such as Los Angeles. Weekly US data backs up this analysis showing that third-quarter imports of gasoline have been 73% higher than the third quarter last year, while gasoline blending component imports are 134% higher. Similarly, jet fuel imports over the third quarter have been 172% higher than last year and distillate imports have increased more than five-fold.

Furthermore, the analysis suggests that while planned maintenance rarely causes a price spike, unplanned outages can result in upward pressure on margins. The commission estimates that disruptions to refinery operations during the first half of 2006 were three times as frequent as the same period for 2005, while planned maintenance was 15% lower. The average duration of the unplanned outages in 2006 was also greater, at 9.2 days per incident compared to 5.3 days in 2005. Other factors that supported margins include the heavy reliance on supplies of alkylate and ethanol to meet California Air Resources Board gasoline specifications. During the first half of 2006 the phase-out of MTBE in other US regions has resulted in tighter markets for these high-octane components, putting further upward pressure on prices for gasoline blending components, although ethanol supply tends to be on six-month contracts, limiting the impact of recent price spikes.

Weekly US data indicate that crude throughputs were higher in August compared to July and posted the first year-on-year improvement since last August, when hurricanes disrupted refinery operations towards the end of the month. Crude runs finished the month just shy of the 16 mb/d level and within 131 kb/d of the 2006 high. In August, crude runs on the East Coast continued to recover from July's disruptions, with a similar picture emerging for the Midwest, where ConocoPhillips's Wood River refinery reached full capacity early in the month. Gulf Coast runs edged higher over the second half of the month with a lull in reported unplanned maintenance activity. Renewed refinery maintenance, primarily on the Gulf Coast will impact runs from late September onwards.

West Coast average crude throughputs in August were 80 kb/d higher than last year's level, despite disruption to Alaskan crude production. Towards the end of the month however, reports of refinery problems at Shell and ExxonMobil facilities may have contributed to lower runs, which dipped to 2.7 mb/d, (the lowest level since May). The disruption of ANS production would appear to have forced refiners to draw down inventories and import record levels of crude, which hit a record 1.6 mb/d in middle of the month.

Outside the US, preliminary data for July crude runs in Canada and Mexico suggest that these were broadly in line with prior year levels at 1.76 mb/d and 1.25 mb/d respectively. Canadian data for April and May has been revised down by 150 kb/d while June crude runs are now 28 kb/d higher than initially estimated.

OECD Europe

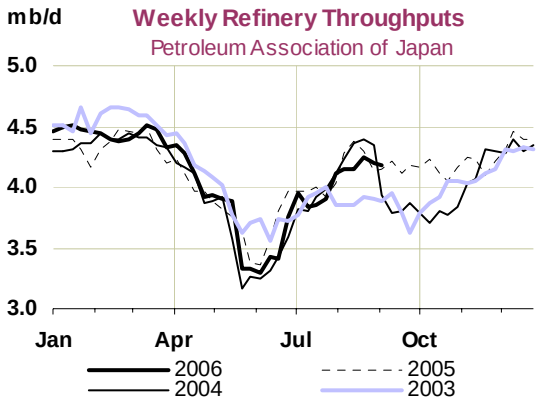
European crude throughputs averaged 13.76 mb/d in July, down 160 kb/d from June's upward revised (+178 kb/d) level of 13.92 kb/d. Crude runs were 232 kb/d below July 2005 level, with shortfalls seen in the UK (-132 kb/d), Spain (-63 kb/d) and Turkey (-38 kb/d). Throughputs recovered in July in Denmark, as Shell's Fredericia refinery exited maintenance work, and France despite reports that Shell's 141 kb/d Petit Couronne refinery was shut for a month-long turnaround. Declines in throughput were reported in Germany, Spain, Turkey and the Netherlands. July crude runs were relatively stable in Austria despite the reports of a fire at OMV's Schwechat plant during the month, suggesting that the capacity returned to service quickly.

European refinery runs are likely to dip in September and October with the onset of the autumn maintenance programme. Work is expected to commence in the UK, Germany, the Netherlands, Spain and Belgium, although the precise timing of the work remains unclear.

OECD Pacific

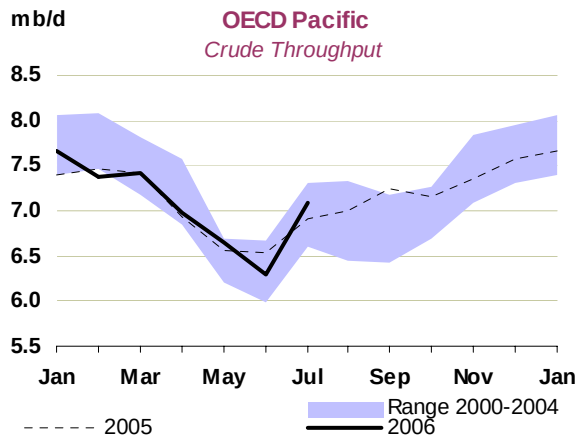
OECD Pacific crude throughputs increased by 783 kb/d in July to average 7.08 mb/d from the downward revised (-143 kb/d) June estimate of 6.30 mb/d. The increase comes as seasonal maintenance activity in Japan and Korea winds down. Japan's July crude runs of 3.97 mb/d are almost exactly in line with the July 2005 level, having increased by 459 kb/d from June's downward revised (-94 kb/d) level of 3.51 mb/d. This is in line with our estimate of a 456 kb/d reduction in maintenance activity from June. We expect maintenance activity to decline by a further 376 kb/d in August, providing a seasonal lull in offline capacity before the autumn's turnaround season.

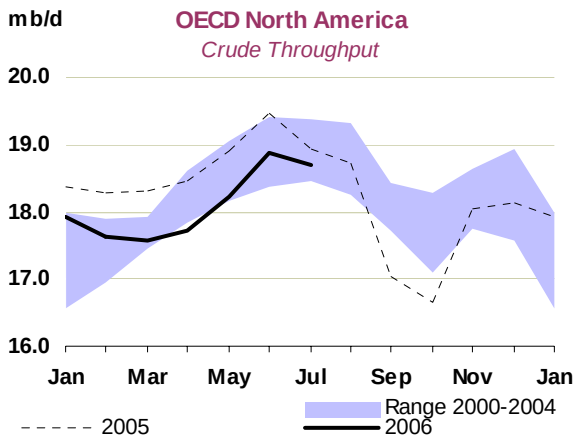
Weekly data from the Petroleum Association of Japan show that crude runs continued to recover in August, reaching 4.24 mb/d in the middle of the month. Recently runs have dropped away as Cosmo shut down two crude units having discovered falsified maintenance records on the two crude units from around ten years ago. The deterioration in margins in recent weeks has raised the possibility of some refiners cutting runs in order to bolster profitability. However, the evidence suggests that most refiners intend to continue to maximise throughputs for the moment, ahead of maintenance in September and October which could remove as much as 600 kb/d from capacity in October.

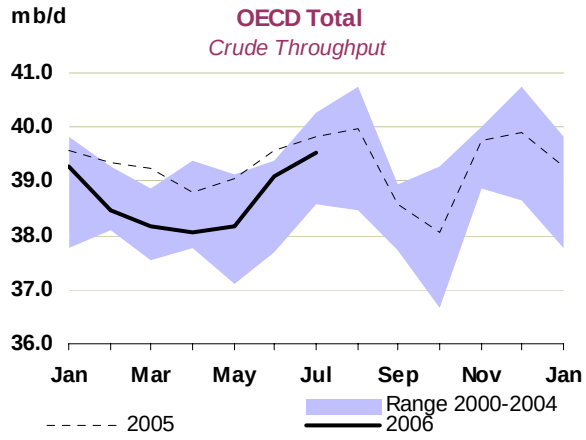


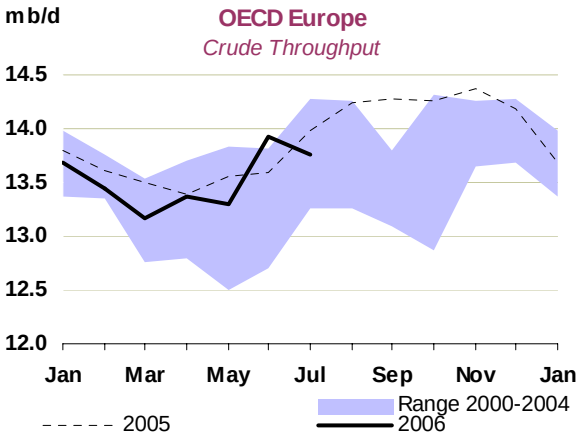
Korean refinery activity in July increased by 284 kb/d, as refiners exited from the June peak for planned maintenance work. Korean throughputs averaged 2.43 mb/d, some 182 kb/d above the July 2005 level. Industry reports suggest crude runs in August declined to 2.39 mb/d, even after the cancellation of

work at SK Corp.'s 260 kb/d Ulsan CDU#2. In September, despite expectations that refiners will increase runs back to 2.45 mb/d, there are reports that some refiners have already taken steps to cut runs in light of the weak margin environment.



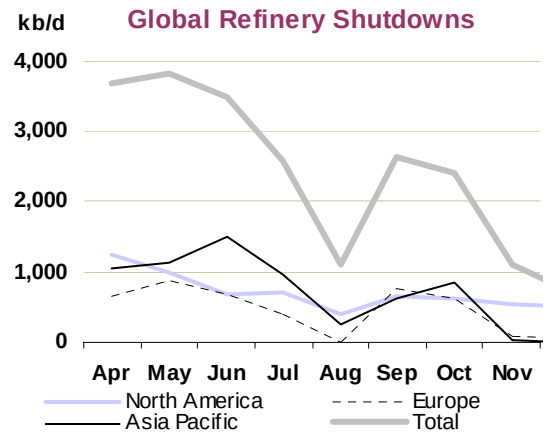


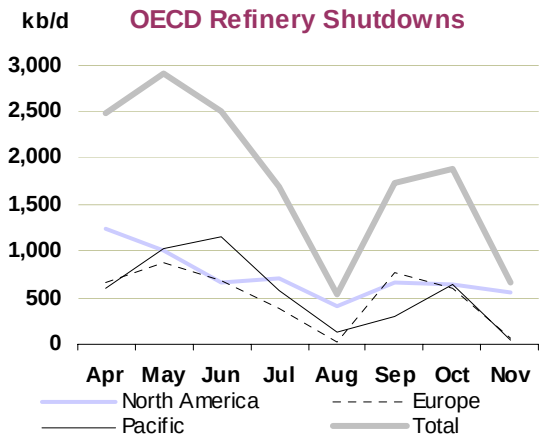




Offline Refinery Capacity

Analysis of planned and unplanned refinery maintenance continues to indicate that August was the low point for offline capacity in OECD countries and indeed on a global basis. Maintenance activity is expected to increase in all OECD regions in September and reach a seasonal peak in October, before refineries increase runs ahead of peak winter demand for heating oils. The estimate for offline capacity in July is revised up by 120 kb/d to 1.7 mb/d, while our estimate for August is 35 kb/d higher at 0.6 mb/d. Confirmation of the timing for several planned maintenance shutdowns, including BP's 400 kb/d Nerefco plant, Chevron's 210 kb/d Pembroke plant and ConocoPhillips 268 kb/d Willemshaven refinery, has allowed us to revise up our estimates for September by 850 kb/d to 1.8 mb/d, while October's estimate is 500 kb/d higher at 1.9 mb/d.





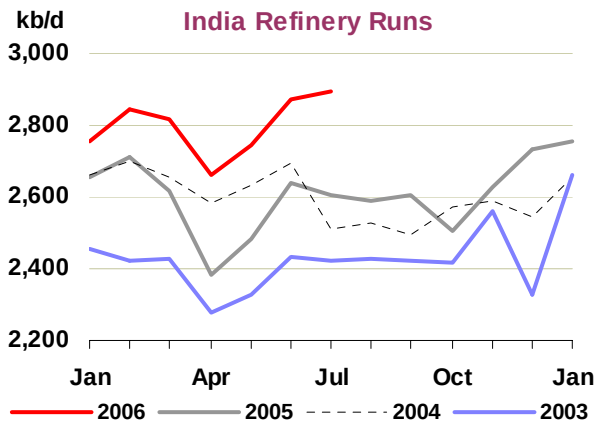
Estimates for global offline distillation capacity have been similarly revised up for September and October, to 2.7 mb/d and 2.5 mb/d, respectively. Global offline capacity in August fell by 1.5 mb/d from July's level of 2.6 mb/d as refineries reached the low point of planned work and reported unplanned shutdowns were also low, particularly in the second half of the month. However, with the second half of September expected to see relatively heavy maintenance and reports of planned run cuts in Asia, offline capacity is expected to rise in the next few months.

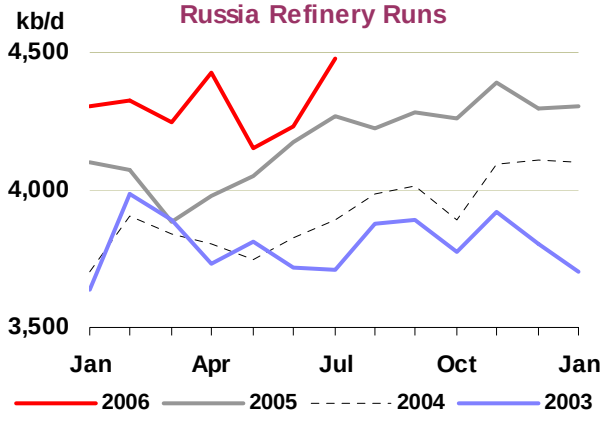
Non-OECD Throughputs

Indian crude throughputs increased in July to a record level of 2.89 mb/d, up 18 kb/d from June's 2.87 mb/d. July's crude runs were 12.6% higher than July 2005's level, as additional crude throughputs from the Panipat refinery expansion boosted total crude runs, despite work being carried out at IOC's 170 kb/d Mathura refinery.

Preliminary data for Chinese crude runs as estimated for Sinopec and PetroChina reached 5.7 mb/d in July, with total crude runs estimated at 6.02 mb/d, some 7.8% above the July 2005 level. Test runs at the Hainan refinery are reported to have started on 28 July, with full production now expected to commence in early September if successful. Sinopec's Guangzhou refinery is reported to have commissioned some of the upgrading units in July and August, with further commissioning work expected in September and October, several months ahead of schedule. The full utilisation of both the new and old crude units will raise runs from 150 kb/d to over 300 kb/d and allow for the processing of more heavy sour crude.

PetroChina runs in August are expected to have declined as work at three of its plants will cut utilisation rates from 77% in July to 72% in August. Despite the higher throughputs that China has reported, the margin pressure that individual refiners face was evident in the first half results of Sinopec's separately listed Shanghai Petrochemical Corporation. Chinese price caps left domestic gasoline and gasoil prices some $7-8/mt below Singapore prices during the first half of the year. This led to first-half net profit falling by 98% from first-half 2005 level. The refiner indicated plans to cut product output by 13% in 2006 to reduce losses, having cut crude throughputs by some 7% during the first half of 2006. If expectations for a further price hike are realised and the recent oil price declines are sustained, then domestic refining margins could return to levels that are more attractive to restoring runs over the balance of the year.





Russian crude runs increased to a new record in July of 4.48 mb/d from the 4.23 mb/d seen in June as higher crude production and lower exports allowed domestic refiners to increase runs. However, the lower crude exports follow the cessation of crude supplies to the Mazeikiu refinery and Butinge terminal in Lithuania. Consequently crude runs at Mazeikiu have been cut by around 40-50 kb/d in July. Little planned maintenance has been reported for August, suggesting crude runs remained strong, although some work is planned for September at the Salavat refinery.

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

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	24.5	25.4	25.6	25.3	25.5	25.4	25.5	25.1	25.1	25.7	26.1	25.5	25.8	25.6	26.0	26.1	25.9
Europe	15.4	15.5	15.6	15.1	15.6	15.6	15.5	15.7	15.0	15.4	15.7	15.5	15.5	15.1	15.5	15.7	15.5
Pacific	8.6	8.5	9.4	8.1	8.1	8.8	8.6	9.3	7.9	8.1	8.9	8.6	9.3	7.9	8.1	8.9	8.5
Total OECD	48.6	49.3	50.6	48.5	49.1	49.9	49.5	50.1	48.0	49.2	50.7	49.5	50.6	48.6	49.6	50.7	49.9
NON-OECD DEMAND																	
FSU	3.6	3.8	3.8	3.7	3.8	3.9	3.8	3.9	3.7	3.8	4.0	3.9	3.9	3.7	3.9	4.1	3.9
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	5.6	6.5	6.6	6.5	6.7	6.8	6.6	6.8	7.1	7.2	7.2	7.0	7.2	7.4	7.5	7.7	7.4
Other Asia	8.1	8.6	8.9	8.9	8.7	8.7	8.8	8.9	9.0	8.7	9.0	8.9	9.1	9.1	9.0	9.2	9.1
Latin America	4.7	5.0	5.0	5.1	5.2	5.1	5.1	5.1	5.2	5.3	5.2	5.2	5.2	5.3	5.4	5.3	5.3
Middle East	5.4	5.8	6.0	6.1	6.3	6.1	6.1	6.4	6.4	6.7	6.4	6.5	6.7	6.7	7.0	6.8	6.8
Africa	2.7	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0	3.1	3.1	2.9	3.1	3.0
Total Non-OECD	30.7	33.1	34.0	33.9	34.1	34.2	34.1	34.8	35.1	35.2	35.5	35.2	36.0	36.0	36.4	36.8	36.3
Total Demand[1]	79.3	82.5	84.6	82.4	83.2	84.1	83.6	84.9	83.1	84.4	86.3	84.7	86.6	84.7	86.0	87.6	86.2
OECD SUPPLY																	
North America	14.6	14.6	14.4	14.6	13.7	13.6	14.1	14.2	14.2	14.1	14.2	14.2	14.5	14.4	14.3	14.5	14.4
Europe	6.3	6.1	5.9	5.7	5.4	5.5	5.6	5.5	5.1	5.2	5.4	5.3	5.5	5.3	5.2	5.4	5.3
Pacific	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6
Total OECD	21.6	21.2	20.9	20.9	19.7	19.7	20.3	20.2	19.8	19.8	20.3	20.0	20.6	20.3	20.1	20.5	20.4
NON-OECD SUPPLY																	
FSU	10.3	11.2	11.5	11.5	11.7	11.9	11.6	11.7	12.0	12.2	12.4	12.1	12.4	12.5	12.7	12.8	12.6
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.8	3.7
Other Asia	2.6	2.7	2.7	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.8
Latin America	4.0	4.1	4.2	4.4	4.3	4.3	4.3	4.4	4.4	4.5	4.7	4.5	4.7	4.6	4.7	4.9	4.7
Middle East	2.0	1.9	1.9	1.9	1.9	1.8	1.9	1.8	1.8	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.7
Africa	3.0	3.4	3.5	3.6	3.8	3.9	3.7	4.0	3.9	4.1	4.2	4.0	4.3	4.4	4.7	4.8	4.6
Total Non-OECD	25.6	27.0	27.5	27.7	28.2	28.5	28.0	28.4	28.6	29.2	29.6	29.0	29.8	30.0	30.5	30.8	30.3
Processing Gains[2]	1.8	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Other Biofuels[3]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Total Non-OPEC[4]	49.1	50.1	50.4	50.5	49.8	50.1	50.2	50.7	50.5	51.0	51.9	51.0	52.6	52.4	52.8	53.5	52.8
OPEC																	
Crude[5]	27.1	28.9	29.3	29.8	30.0	29.9	29.8	29.9	29.8								
NGLs	3.7	4.2	4.4	4.4	4.5	4.5	4.5	4.6	4.7	4.7	4.8	4.7	4.9	4.9	5.0	5.1	5.0
Total OPEC	30.8	33.1	33.7	34.2	34.5	34.5	34.2	34.5	34.5								
Total Supply[6]	79.8	83.2	84.1	84.8	84.4	84.6	84.5	85.2	85.0								
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.1	0.1	-0.1	0.9	0.2	-0.6	0.1	0.0	0.5								
Government	0.2	0.1	0.1	0.3	0.0	-0.1	0.1	0.0	0.1								
Total	0.3	0.2	0.1	1.2	0.2	-0.6	0.2	0.0	0.6								
Floating Storage/Oil in Transit	0.2	0.0	-0.4	0.1	0.0	0.1	-0.1	0.1	-0.1								
Miscellaneous to balance[7]	0.1	0.5	-0.1	1.0	1.0	1.0	0.7	0.1	1.3								
Total Stock Ch. & Misc	0.5	0.7	-0.5	2.3	1.1	0.5	0.9	0.2	1.9								
Memo items:																	
Call on OPEC crude + Stock ch.[8]	26.6	28.2	29.8	27.5	28.9	29.4	28.9	29.6	27.9	28.7	29.5	28.9	29.0	27.3	28.2	28.9	28.4
Total Demand ex. FSU	75.7	78.7	80.8	78.7	79.5	80.2	79.8	81.0	79.4	80.6	82.2	80.8	82.6	81.0	82.2	83.5	82.3
Total demand exc. FSU (% ch)[9]	1.9	4.0	2.3	1.6	1.5	0.1	1.4	0.3	0.8	1.4	2.5	1.3	2.0	2.1	1.9	1.5	1.9

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 Biofuels from sources outside Brazil and US.
4 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
5 As of the March 2006 OMR, Venezuelan Orinoco heavy crude production is included within Venezuelan crude estimates. Orimulsion fuel remains within the OPEC NGL & non-conventional category.
6 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
7 Includes changes in non-reported stocks in OECD and non-OECD areas
8 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
9 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)

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-0.1	-0.2	-	-0.1	-0.1	-0.1	-0.1	-	-0.1
Europe	-	-	-	-	-	-	-	-	0.1	-0.1	-	-	0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-0.1	-	-	-0.1	-0.1	-	-	-0.1
Total OECD	-	-	-	-	-	-	-	-	0.1	-0.4	-	-0.1	-0.1	-0.2	-0.1	-	-0.1
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-0.1	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-0.1	-
Total Demand	-	-	-	-	-	-	-	-	-	-0.4	-	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	0.1	-0.1	-	-	-0.1	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-0.2	-	-0.1	-0.1	-0.1	-0.1	-0.1
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-0.1	-0.1	-0.1	-0.1
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Biofuels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1
OPEC																	
Crude	-	-	-	-	-	-	-	-	0.1								
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	0.1								
Total Supply	-	-	-	-	-	-	-	-	-								
STOCK CHANGES AND MISCELLANEOUS REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	-0.2								
Government	-	-	-	-	-	-	-	-	-								
Total	-	-	-	-	-	-	-	-	-0.1								
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-0.1								
Miscellaneous to balance	-	-	-	-	-	-	-	-	0.2								
Total Stock Ch. & Misc	-	-	-	-	-	-	-	-	-								
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-	-	-	-	-	-	-	-0.4	0.2	-	-	-0.1	-	-	-
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-	-0.4	-	-0.1	-0.1	-0.2	-0.1	-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

	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)																
North America	25.37	25.57	25.34	25.50	25.43	25.46	25.11	25.11	25.73	26.07	25.51	25.81	25.65	26.00	26.14	25.90
Europe	15.48	15.58	15.15	15.55	15.64	15.48	15.72	15.04	15.36	15.73	15.46	15.54	15.07	15.52	15.69	15.46
Pacific	8.49	9.45	8.06	8.07	8.79	8.59	9.30	7.87	8.12	8.95	8.56	9.25	7.93	8.10	8.90	8.54
Total OECD	49.35	50.59	48.55	49.13	49.86	49.53	50.14	48.01	49.21	50.74	49.52	50.60	48.64	49.62	50.73	49.90
FSU	3.76	3.82	3.71	3.79	3.89	3.80	3.88	3.72	3.84	4.03	3.87	3.93	3.69	3.88	4.08	3.90
Europe	0.70	0.77	0.72	0.66	0.72	0.72	0.79	0.73	0.67	0.73	0.73	0.80	0.74	0.69	0.74	0.74
China	6.45	6.58	6.46	6.65	6.79	6.62	6.77	7.08	7.16	7.18	7.05	7.18	7.38	7.50	7.68	7.44
Other Asia	8.64	8.92	8.88	8.67	8.74	8.80	8.90	8.96	8.73	8.98	8.89	9.12	9.13	8.97	9.20	9.11
Latin America	4.97	4.97	5.13	5.19	5.11	5.10	5.08	5.20	5.30	5.22	5.20	5.16	5.31	5.42	5.32	5.31
Middle East	5.81	6.05	6.07	6.35	6.07	6.14	6.38	6.40	6.67	6.41	6.47	6.72	6.75	7.02	6.76	6.81
Africa	2.80	2.91	2.92	2.80	2.91	2.88	2.97	2.99	2.86	2.98	2.95	3.05	3.05	2.93	3.05	3.02
Total Non-OECD	33.14	34.02	33.89	34.11	34.24	34.07	34.78	35.07	35.23	35.53	35.16	35.97	36.04	36.42	36.85	36.32
World	82.48	84.61	82.44	83.24	84.09	83.59	84.92	83.08	84.44	86.27	84.68	86.57	84.69	86.04	87.57	86.22
of which:																
US50	*20.73*	*20.80*	*20.66*	*20.86*	*20.75*	*20.77*	*20.48*	*20.60*	*21.06*	*21.24*	*20.85*	*21.07*	*20.99*	*21.25*	*21.28*	*21.15*
Euro4	*8.27*	*8.25*	*7.94*	*8.24*	*8.19*	*8.15*	*8.37*	*7.90*	*8.15*	*8.20*	*8.16*	*8.22*	*7.89*	*8.17*	*8.19*	*8.12*
Japan	*5.29*	*6.00*	*4.94*	*5.03*	*5.46*	*5.35*	*5.96*	*4.78*	*5.04*	*5.52*	*5.32*	*5.83*	*4.77*	*4.97*	*5.48*	*5.26*
Korea	*2.16*	*2.40*	*2.07*	*2.01*	*2.23*	*2.18*	*2.28*	*2.03*	*2.02*	*2.32*	*2.16*	*2.34*	*2.08*	*2.05*	*2.30*	*2.19*
Mexico	*2.00*	*2.04*	*2.11*	*2.06*	*2.10*	*2.08*	*2.08*	*2.01*	*2.04*	*2.16*	*2.07*	*2.10*	*2.11*	*2.10*	*2.17*	*2.12*
Canada	*2.30*	*2.36*	*2.24*	*2.24*	*2.23*	*2.27*	*2.18*	*2.16*	*2.28*	*2.30*	*2.23*	*2.26*	*2.21*	*2.29*	*2.32*	*2.27*
Brazil	*2.15*	*2.12*	*2.18*	*2.25*	*2.21*	*2.19*	*2.17*	*2.19*	*2.29*	*2.25*	*2.23*	*2.21*	*2.25*	*2.34*	*2.30*	*2.27*
India	*2.58*	*2.73*	*2.60*	*2.48*	*2.57*	*2.59*	*2.74*	*2.70*	*2.50*	*2.66*	*2.65*	*2.83*	*2.74*	*2.58*	*2.71*	*2.71*
Annual Change (% per annum)																
North America	3.5	1.2	1.1	0.2	-1.1	0.3	-1.8	-0.9	0.9	2.5	0.2	2.8	2.1	1.1	0.3	1.5
Europe	0.3	0.5	0.6	0.5	-1.6	0.0	0.9	-0.7	-1.2	0.6	-0.1	-1.1	0.2	1.0	-0.2	0.0
Pacific	-1.6	2.3	2.3	-0.5	0.6	1.2	-1.5	-2.4	0.5	1.8	-0.4	-0.6	0.8	-0.2	-0.5	-0.2
Total OECD	1.5	1.2	1.1	0.2	-1.0	0.4	-0.9	-1.1	0.2	1.8	0.0	0.9	1.3	0.8	0.0	0.8
FSU	4.7	8.7	-0.2	0.0	-2.7	1.3	1.6	0.1	1.3	3.5	1.6	1.3	-0.8	1.1	1.4	0.8
Europe	2.5	2.1	2.1	1.7	1.6	1.9	2.5	1.4	1.6	1.6	1.8	0.7	1.7	1.7	1.4	1.4
China	15.8	4.5	-1.3	5.0	2.5	2.6	2.9	9.6	7.6	5.8	6.5	6.0	4.2	4.8	7.0	5.5
Other Asia	7.1	4.3	2.4	2.5	-1.6	1.8	-0.2	0.9	0.7	2.7	1.0	2.5	2.0	2.8	2.5	2.4
Latin America	6.0	3.1	3.0	2.4	2.1	2.7	2.2	1.4	2.0	2.2	1.9	1.7	2.1	2.4	1.9	2.0
Middle East	7.2	5.8	5.8	5.3	5.4	5.6	5.5	5.4	5.1	5.6	5.4	5.3	5.4	5.3	5.3	5.3
Africa	4.4	3.3	3.3	2.5	2.7	3.0	2.4	2.3	2.4	2.4	2.4	2.6	2.0	2.3	2.4	2.4
Total Non-OECD	7.9	4.8	2.1	3.2	1.2	2.8	2.2	3.5	3.3	3.8	3.2	3.4	2.8	3.4	3.7	3.3
World	4.0	2.6	1.5	1.4	-0.1	1.3	0.4	0.8	1.4	2.6	1.3	1.9	1.9	1.9	1.5	1.8
Annual Change (mb/d)																
North America	0.85	0.31	0.27	0.06	-0.28	0.09	-0.45	-0.23	0.22	0.63	0.05	0.69	0.54	0.27	0.07	0.39
Europe	0.05	0.07	0.09	0.08	-0.26	0.00	0.14	-0.11	-0.19	0.09	-0.02	-0.18	0.04	0.16	-0.03	0.00
Pacific	-0.14	0.21	0.18	-0.04	0.06	0.10	-0.14	-0.19	0.04	0.16	-0.03	-0.05	0.06	-0.02	-0.05	-0.02
Total OECD	0.75	0.59	0.54	0.10	-0.48	0.18	-0.45	-0.53	0.07	0.88	0.00	0.46	0.63	0.41	-0.01	0.37
FSU	0.17	0.31	-0.01	0.00	-0.11	0.05	0.06	0.00	0.05	0.14	0.06	0.05	-0.03	0.04	0.06	0.03
Europe	0.02	0.02	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
China	0.88	0.28	-0.09	0.31	0.16	0.17	0.19	0.62	0.51	0.39	0.43	0.41	0.30	0.34	0.50	0.39
Other Asia	0.57	0.37	0.20	0.21	-0.14	0.16	-0.02	0.08	0.06	0.24	0.09	0.22	0.18	0.25	0.22	0.22
Latin America	0.28	0.15	0.15	0.12	0.11	0.13	0.11	0.07	0.10	0.11	0.10	0.08	0.11	0.12	0.10	0.11
Middle East	0.39	0.33	0.34	0.32	0.31	0.32	0.33	0.33	0.33	0.34	0.33	0.34	0.34	0.35	0.34	0.34
Africa	0.12	0.09	0.09	0.07	0.08	0.08	0.07	0.07	0.07	0.07	0.07	0.08	0.06	0.07	0.07	0.07
Total Non-OECD	2.43	1.55	0.70	1.05	0.42	0.93	0.76	1.18	1.12	1.30	1.09	1.18	0.97	1.19	1.31	1.16
World	3.18	2.13	1.25	1.15	-0.06	1.11	0.31	0.65	1.19	2.18	1.09	1.65	1.60	1.60	1.30	1.54
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-	-	-	-	-	-0.07	-0.21	0.02	-0.07	-0.12	-0.10	-0.13	-0.02	-0.09
Europe	-	-	-	-	-	-	-0.02	0.11	-0.09	0.02	0.01	0.06	-0.04	0.02	0.03	0.02
Pacific	-	-	-	-	-	-	-	0.03	-0.14	-	-0.03	-0.08	-0.06	-0.04	-0.03	-0.05
Total OECD	-	-	-	-	-	-	-0.02	0.07	-0.43	0.04	-0.09	-0.13	-0.20	-0.15	-0.03	-0.13
FSU	-	-	-	-	-	-	0.01	0.02	-	-	0.01	0.01	0.01	0.01	0.01	0.01
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-0.03	0.07	-0.04	-	-	0.04	0.03	-0.08	-
Other Asia	-	-	-	-	-	-	-	-0.04	-0.02	0.02	-0.01	-0.01	-0.01	-0.04	-0.04	-0.03
Latin America	-	-	-	-	-	-	-	-0.01	-0.01	-0.01	-0.01	-	-0.02	0.02	-0.04	-0.01
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	0.01	-0.07	0.04	-0.03	-0.01	-0.01	0.01	0.03	-0.15	-0.03
World	-	-	-	-	-	-	-0.01	-	-0.40	-	-0.10	-0.14	-0.19	-0.12	-0.18	-0.16
Revisions to Oil Demand Growth from Last Month's Report (mb/d)																
World	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01	-0.40	0.00	-0.10	-0.14	-0.19	0.27	-0.18	-0.06

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2005	2006	2007	1Q06	2Q06	3Q06	4Q06	1Q07	Jun 06	Jul 06	Aug 06
OPEC											
Crude Oil											
Saudi Arabia	9.06			9.27	9.02				9.06	9.07	9.07
Iran	3.88			3.84	3.78				3.95	4.25	4.00
Iraq	1.81			1.71	1.99				2.07	2.06	2.00
UAE	2.46			2.60	2.63				2.63	2.67	2.64
Kuwait	2.13			2.22	2.22				2.22	2.19	2.22
Neutral Zone	0.58			0.59	0.58				0.58	0.57	0.57
Qatar	0.80			0.82	0.82				0.83	0.84	0.84
Nigeria	2.40			2.23	2.19				2.29	2.26	2.27
Libya	1.64			1.67	1.70				1.70	1.72	1.72
Algeria	1.34			1.36	1.36				1.35	1.33	1.33
Venezuela	2.71			2.63	2.61				2.59	2.47	2.53
Indonesia	0.94			0.92	0.91				0.90	0.89	0.86
Total Crude Oil	29.76			29.87	29.80				30.15	30.30	30.04
Total NGLs[1]	4.46	4.72	5.00	4.62	4.66	4.75	4.83	4.91	4.68	4.74	4.74
Total OPEC	34.23			34.48	34.46				34.83	35.04	34.77
NON-OPEC[2]											
OECD											
North America	14.09	14.16	14.41	14.18	14.19	14.11	14.18	14.50	14.14	14.24	14.20
United States	7.27	7.26	7.46	7.19	7.36	7.26	7.20	7.44	7.48	7.40	7.37
Mexico	3.76	3.70	3.57	3.78	3.77	3.66	3.58	3.58	3.72	3.68	3.67
Canada	3.06	3.21	3.38	3.20	3.06	3.19	3.40	3.48	2.93	3.16	3.16
Europe	5.60	5.32	5.35	5.54	5.13	5.16	5.44	5.51	4.92	5.37	5.06
UK	1.83	1.70	1.73	1.84	1.66	1.60	1.72	1.84	1.56	1.65	1.55
Norway	2.97	2.85	2.87	2.93	2.70	2.83	2.96	2.92	2.60	2.96	2.75
Others	0.80	0.76	0.75	0.77	0.77	0.74	0.76	0.75	0.76	0.76	0.77
Pacific	0.58	0.55	0.64	0.49	0.50	0.57	0.63	0.64	0.50	0.54	0.57
Australia	0.54	0.51	0.60	0.45	0.46	0.53	0.59	0.60	0.46	0.50	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	20.28	20.03	20.40	20.21	19.82	19.84	20.25	20.65	19.56	20.15	19.83
NON-OECD											
Former USSR	11.64	12.08	12.62	11.72	12.02	12.21	12.37	12.42	12.04	12.19	12.23
Russia	9.48	9.73	10.01	9.53	9.67	9.80	9.91	9.91	9.70	9.75	9.80
Others	2.16	2.35	2.61	2.19	2.35	2.41	2.46	2.51	2.33	2.44	2.43
Asia	6.30	6.44	6.51	6.42	6.39	6.46	6.48	6.50	6.47	6.44	6.47
China	3.62	3.71	3.75	3.68	3.70	3.72	3.74	3.74	3.73	3.71	3.73
Malaysia	0.77	0.74	0.75	0.77	0.71	0.74	0.73	0.74	0.75	0.74	0.74
India	0.78	0.81	0.83	0.78	0.80	0.82	0.82	0.83	0.82	0.82	0.82
Others	1.13	1.18	1.19	1.18	1.18	1.18	1.18	1.19	1.18	1.18	1.18
Europe	0.16	0.15	0.13	0.15	0.15	0.14	0.14	0.14	0.15	0.15	0.14
Latin America	4.30	4.48	4.71	4.35	4.41	4.51	4.65	4.66	4.34	4.43	4.51
Brazil	1.99	2.16	2.39	2.06	2.08	2.18	2.33	2.33	2.01	2.09	2.18
Argentina	0.78	0.76	0.75	0.76	0.78	0.76	0.75	0.75	0.77	0.77	0.77
Colombia	0.53	0.54	0.54	0.53	0.53	0.54	0.54	0.54	0.53	0.54	0.54
Ecuador	0.53	0.55	0.56	0.52	0.55	0.55	0.56	0.56	0.55	0.55	0.55
Others	0.47	0.47	0.47	0.47	0.47	0.48	0.47	0.48	0.48	0.48	0.47
Middle East[3]	1.86	1.76	1.72	1.80	1.76	1.75	1.74	1.74	1.76	1.76	1.75
Oman	0.79	0.74	0.71	0.76	0.74	0.73	0.72	0.71	0.74	0.73	0.73
Syria	0.46	0.43	0.41	0.44	0.43	0.43	0.42	0.42	0.43	0.43	0.43
Yemen	0.42	0.40	0.41	0.40	0.39	0.40	0.40	0.42	0.39	0.40	0.40
Africa	3.72	4.04	4.57	3.96	3.90	4.09	4.22	4.34	3.81	4.05	4.08
Egypt	0.70	0.69	0.68	0.69	0.68	0.69	0.69	0.69	0.64	0.69	0.69
Angola	1.25	1.42	1.72	1.42	1.33	1.46	1.45	1.53	1.28	1.46	1.46
Gabon	0.23	0.23	0.23	0.24	0.24	0.23	0.23	0.23	0.24	0.23	0.23
Others	1.54	1.70	1.94	1.61	1.65	1.71	1.85	1.89	1.64	1.66	1.70
Total Non-OECD	27.97	28.95	30.26	28.41	28.63	29.16	29.60	29.79	28.56	29.01	29.19
Processing Gains[4]	1.86	1.90	1.92	1.92	1.89	1.88	1.92	1.92	1.88	1.88	1.88
Other Biofuels[5]	0.12	0.15	0.26	0.15	0.15	0.15	0.15	0.26	0.15	0.15	0.15
TOTAL NON-OPEC	50.23	51.04	52.84	50.69	50.50	51.02	51.92	52.62	50.15	51.19	51.06
TOTAL SUPPLY	84.46			85.17	84.96	76.10	56.76	57.53	84.98	86.23	85.83

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Venezuelan Orimulsion (but not Orinoco 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

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			
	Mar2006	Apr2006	May2006	Jun2006	Jul2006*	Jul2003	Jul2004	Jul2005	3Q2005	4Q2005	1Q2006	2Q2006
North America												
Crude	463.5	475.7	461.3	454.6	449.7	398.8	406.9	435.1	-0.15	0.25	0.08	-0.10
Motor Gasoline	242.2	236.3	242.3	241.5	238.5	231.9	240.3	237.0	-0.19	0.08	0.08	-0.01
Middle Distillate	194.5	190.1	195.9	199.7	205.1	190.6	193.3	206.0	0.08	0.16	-0.21	0.06
Residual Fuel Oil	50.5	49.2	49.7	52.1	52.3	39.0	42.5	46.2	-0.04	0.03	0.07	0.02
Total Products[3]	635.2	632.9	659.8	669.6	689.0	643.1	650.6	689.7	-0.16	-0.06	-0.25	0.38
Total[4]	1239.1	1251.2	1268.3	1271.8	1286.0	1196.2	1207.7	1278.8	-0.19	-0.02	-0.18	0.36
Europe												
Crude	344.5	334.4	343.3	334.7	337.2	331.6	328.0	338.2	0.01	-0.12	0.20	-0.11
Motor Gasoline	111.3	105.6	104.7	101.6	101.1	107.0	110.3	105.5	0.02	0.08	-0.02	-0.11
Middle Distillate	246.7	262.6	260.2	255.1	257.9	238.3	245.7	255.0	0.18	-0.03	-0.11	0.09
Residual Fuel Oil	70.0	76.2	73.7	75.8	75.0	67.6	78.4	71.9	0.05	-0.03	-0.04	0.06
Total Products[3]	529.7	545.7	540.2	532.4	534.7	517.6	537.1	534.0	0.24	0.05	-0.18	0.03
Total[4]	949.4	956.4	958.3	940.5	944.4	920.7	935.5	944.9	0.30	-0.12	0.05	-0.10
Pacific												
Crude	170.7	170.9	185.5	180.6	175.5	192.6	182.7	183.8	-0.09	-0.12	0.15	0.11
Motor Gasoline	24.4	24.5	24.8	24.4	23.1	26.2	23.8	24.4	-0.02	0.00	0.02	0.00
Middle Distillate	60.3	58.0	67.0	69.6	75.9	73.4	62.7	68.1	0.21	-0.18	-0.01	0.10
Residual Fuel Oil	19.2	22.4	24.5	23.0	24.8	26.1	22.3	25.7	0.01	-0.04	-0.01	0.04
Total Products[3]	167.8	170.3	180.5	182.1	190.5	195.3	174.7	186.3	0.20	-0.26	0.00	0.16
Total[4]	408.0	412.3	438.1	433.9	437.9	461.9	429.4	441.7	0.11	-0.42	0.16	0.28
Total OECD												
Crude	978.8	981.0	990.1	969.9	962.5	923.0	917.5	957.1	-0.23	0.01	0.42	-0.10
Motor Gasoline	378.0	366.5	371.8	367.5	362.6	365.0	374.4	366.9	-0.19	0.16	0.08	-0.12
Middle Distillate	501.5	510.7	523.2	524.4	539.0	502.3	501.6	529.1	0.46	-0.05	-0.32	0.25
Residual Fuel Oil	139.6	147.8	148.0	150.9	152.0	132.6	143.2	143.7	0.01	-0.04	0.01	0.12
Total Products[3]	1332.7	1348.9	1380.6	1384.1	1414.1	1355.9	1362.4	1410.0	0.28	-0.27	-0.43	0.56
Total[4]	2596.6	2619.9	2664.7	2646.2	2668.3	2578.8	2572.6	2665.4	0.22	-0.55	0.03	0.55

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			
	Mar2006	Apr2006	May2006	Jun2006	Jul2006*	Jul2003	Jul2004	Jul2005	3Q2005	4Q2005	1Q2006	2Q2006
North America												
Crude	686.1	687.9	688.6	687.9	687.6	612.4	665.7	698.8	-0.03	-0.10	0.02	0.02
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	170.2	171.0	171.9	173.4	173.4	152.9	158.0	164.6	0.02	0.01	0.04	0.04
Products	235.9	233.5	233.1	236.3	236.3	208.4	207.9	238.4	0.03	0.02	-0.03	0.00
Pacific												
Crude	380.4	380.5	380.5	380.9	380.9	382.8	386.7	384.2	-0.01	-0.01	-0.01	0.00
Products	11.4	11.4	11.7	11.8	11.8	10.0	11.0	11.3	0.00	0.00	0.00	0.00
Total OECD												
Crude	1236.7	1239.3	1241.0	1242.1	1241.8	1148.1	1210.4	1247.6	-0.03	-0.10	0.04	0.06
Products	249.3	246.9	246.8	250.1	250.1	220.4	220.9	251.8	0.03	0.02	-0.04	0.01
Total[4]	1487.0	1487.2	1488.7	1493.2	1492.8	1369.4	1432.3	1500.4	0.00	-0.08	0.01	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 June 2005		End September 2005		End December 2005		End March 2006		End June 2006 [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	164.7	73	170.5	77	178.1	82	169.7	78	165.8	-
Mexico	45.6	22	52.8	25	43.9	21	41.7	21	42.1	-
United States[4]	1740.5	84	1707.4	82	1697.9	83	1693.7	83	1731.6	-
Total[4]	1972.9	78	1952.9	77	1942.0	78	1927.2	77	1961.6	76
Pacific										
Australia	35.7	40	34.1	37	32.7	36	35.5	39	37.2	-
Japan	629.4	125	637.9	117	612.1	103	620.1	130	627.2	-
Korea	142.5	71	145.4	65	134.9	59	137.4	68	155.4	-
New Zealand	9.0	62	7.9	48	7.2	44	6.8	45	6.7	-
Total	816.6	101	825.3	94	786.8	85	799.8	102	826.5	102
Europe[5]										
Austria	20.2	66	19.8	68	20.4	72	18.7	66	19.2	-
Belgium	27.8	57	30.3	51	28.6	45	27.3	53	28.5	-
Czech Republic	15.9	70	16.7	79	18.8	98	19.6	90	19.5	-
Denmark	17.2	96	20.5	111	20.3	102	19.5	102	20.3	-
Finland	27.0	122	27.3	123	25.1	113	26.7	120	30.5	-
France	185.6	93	191.4	97	195.6	93	196.2	104	188.7	-
Germany	279.5	102	275.8	105	282.6	111	279.9	110	281.4	-
Greece	32.6	85	34.6	75	33.1	69	35.4	95	33.8	-
Hungary	17.0	105	17.1	104	17.6	120	20.8	127	17.3	-
Ireland	11.6	63	13.2	65	11.6	55	13.3	73	12.6	-
Italy	132.1	78	137.0	77	132.0	71	131.5	81	126.0	-
Luxembourg	0.8	13	0.8	12	0.8	11	0.9	15	1.0	-
Netherlands	116.6	114	115.7	115	116.4	116	120.5	121	123.1	-
Norway	21.0	98	30.2	108	30.7	123	21.9	91	21.8	-
Poland	34.5	70	33.8	69	35.2	79	35.5	74	35.7	-
Portugal	26.5	78	26.8	82	25.7	78	24.7	83	24.7	-
Slovak Republic	6.4	80	5.1	59	6.5	83	8.3	102	7.7	-
Spain	129.4	82	131.7	84	128.6	79	130.2	84	129.2	-
Sweden	35.4	100	34.6	95	38.0	102	38.4	110	38.7	-
Switzerland	38.0	134	38.9	137	37.7	128	37.7	147	39.3	-
Turkey	52.2	76	50.8	81	51.2	100	51.6	78	51.6	-
United Kingdom	102.3	57	108.7	60	95.6	52	97.8	53	100.5	-
Total	1329.6	85	1360.8	87	1351.8	86	1356.5	90	1351.2	88
Total OECD	4119.1	84	4138.9	83	4080.6	82	4083.5	85	4139.3	84
DAYS OF IEA Net Imports[6]	-	116	-	116	-	114	-	115	-	116

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 2006 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]*		
2Q2003	3916	1365	2551	81	28	53
3Q2003	3983	1383	2600	80	28	53
4Q2003	3928	1411	2517	79	28	50
1Q2004	3888	1423	2465	81	30	51
2Q2004	3974	1429	2545	81	29	52
3Q2004	4016	1435	2581	80	29	51
4Q2004	4000	1450	2550	79	29	51
1Q2005	4005	1462	2543	83	30	53
2Q2005	4119	1494	2625	84	30	54
3Q2005	4139	1494	2645	83	30	53
4Q2005	4081	1487	2594	82	30	52
1Q2006	4084	1487	2597	85	31	54
2Q2006	4139	1493	2646	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 2Q2006 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2003	2004	2005	3Q05	4Q05	1Q06	2Q06	Apr 06	May 06	Jun 06	Year Earlier Jun 05	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.55	0.46	0.41	0.52	0.51	0.68	0.65	0.82	0.57	0.39	0.18
Europe	1.00	1.03	0.90	0.92	0.91	0.83	0.75	0.73	0.75	0.75	0.89	-0.13
Pacific	1.18	1.24	1.31	1.25	1.37	1.40	1.33	1.53	1.25	1.20	1.20	0.00
Saudi Medium												
North America	0.83	0.80	0.81	0.58	0.81	0.65	0.61	0.74	0.60	0.50	0.97	-0.47
Europe	0.11	0.11	0.16	0.20	0.16	0.17	0.13	0.15	0.11	0.12	0.14	-0.03
Pacific	0.24	0.23	0.26	0.27	0.32	0.38	0.35	0.37	0.34	0.35	0.21	0.14
Saudi Heavy												
North America	0.30	0.22	0.17	0.20	0.16	0.21	0.21	0.21	0.14	0.28	0.15	0.13
Europe	0.19	0.23	0.23	0.27	0.26	0.14	0.22	0.24	0.17	0.25	0.23	0.02
Pacific	0.16	0.15	0.25	0.26	0.29	0.25	0.20	0.21	0.20	0.19	0.20	-0.01
Iraqi Basrah Light[2]												
North America	0.44	0.71	0.60	0.56	0.59	0.44	0.60	0.51	0.56	0.72	0.53	0.19
Europe	0.09	0.21	0.23	0.24	0.31	0.24	0.29	0.31	0.32	0.23	0.16	0.07
Pacific	0.03	0.12	0.06	0.06	0.06	0.08	0.09	0.12	..	0.14	0.07	0.08
Iraqi Kirkuk												
North America	0.06	0.02	..	..	..	..	..	..	..	..	..	..
Europe	0.12	0.08	0.05	0.13	0.03	..	..	..	..	..	0.07	..
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.19	0.24	0.20	0.16	0.22	0.20	0.26	0.26	0.21	0.30	0.14	0.16
Pacific	0.17	0.16	0.15	0.14	0.15	0.19	0.12	0.13	0.18	0.03	0.15	-0.12
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.59	0.57	0.63	0.71	0.57	0.48	0.51	0.38	0.51	0.62	0.59	0.03
Pacific	0.69	0.65	0.62	0.52	0.63	0.64	0.48	0.56	0.54	0.35	0.49	-0.14
Venezuelan Light & Medium												
North America	0.69	0.67	0.82	0.79	0.81	0.76	0.66	0.73	0.73	0.52	0.78	-0.26
Europe	0.02	0.01	0.04	0.06	0.07	0.12	0.15	0.14	0.10	0.22	0.05	0.17
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.60	0.88	0.72	0.66	0.56	0.72	0.70	0.71	0.71	0.68	0.75	-0.06
Europe	0.06	0.05	0.06	0.08	0.06	0.08	0.05	0.04	0.06	0.05	0.06	-0.01
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	1.32	1.36	1.27	1.17	1.25	1.26	1.24	1.24	1.22	1.26	1.40	-0.14
Europe	0.16	0.16	0.17	0.16	0.18	0.13	0.20	0.20	0.18	0.21	0.17	0.04
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.00	..	0.03	0.02	0.10	0.09	0.03	0.07	..	0.01	0.01	0.00
Europe	0.00	0.01	0.03	0.02	0.05	0.01	0.00	0.00	..	..	0.03	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.14	0.12	0.13	0.16	0.09	..	0.16	0.04	0.19	0.24	0.05	0.19
Europe	1.62	1.86	1.77	1.76	1.69	1.68	1.77	1.72	1.77	1.83	1.59	0.24
Pacific	0.00	0.01	0.00	0.01	..	..	..	..	..	..	..	..
Nigerian Light[4]												
North America	0.63	0.80	0.90	0.94	0.90	0.87	0.79	0.95	0.65	0.78	0.76	0.02
Europe	0.41	0.28	0.35	0.41	0.41	0.28	0.27	0.29	0.21	0.30	0.28	0.02
Pacific	0.08	0.11	0.05	0.07	0.02	0.09	0.03	0.02	..	0.06	0.07	0.00
Nigerian Medium												
North America	0.17	0.23	0.17	0.13	0.15	0.19	0.17	0.12	0.16	0.23	0.31	-0.08
Europe	0.06	0.04	0.07	0.08	0.07	0.08	0.08	0.05	0.06	0.13	0.06	0.08
Pacific	0.01	0.01	0.01	..	..	..	..	..	..	..	..	..

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)

	2003	2004	2005	3Q2005	4Q2005	1Q2006	2Q2006	Apr-06	May-06	Jun-06	Year Earlier Jun-05	Year Earlier % change
Crude Oil												
North America	8069	8431	8384	8251	8101	7740	8266	7981	8179	8642	8941	-3%
Europe	9096	9477	9811	10082	9955	9382	9569	9276	9485	9948	8963	10%
Pacific	6711	6659	6801	6643	6967	7402	6512	6733	6843	5948	6353	-7%
Total OECD	23876	24568	24997	24975	25023	24524	24347	23991	24507	24537	24256	1%
LPG												
North America	27	24	18	18	30	8	8	5	9	10	2	84%
Europe	193	225	231	218	230	280	241	213	260	251	123	51%
Pacific	541	541	527	500	486	651	576	602	580	547	549	0%
Total OECD	760	790	776	735	746	939	826	819	849	807	674	17%
Naphtha												
North America	67	99	110	151	76	41	49	32	78	36	91	-156%
Europe	305	282	281	297	287	342	268	151	412	236	258	-9%
Pacific	770	769	746	693	760	692	731	736	616	844	746	12%
Total OECD	1142	1150	1137	1142	1123	1074	1048	919	1106	1116	1095	2%
Gasoline[3]												
North America	669	794	1016	1046	1148	1113	1358	1241	1568	1259	1110	12%
Europe	150	137	172	208	122	194	143	25	223	179	166	7%
Pacific	70	105	102	93	90	85	143	108	162	159	138	13%
Total OECD	888	1035	1291	1346	1360	1392	1644	1374	1952	1597	1414	11%
Jet & Kerosene												
North America	97	101	130	139	268	79	192	206	228	139	42	70%
Europe	271	293	375	449	371	319	394	375	342	467	396	15%
Pacific	102	77	66	48	49	131	40	32	48	38	57	-50%
Total OECD	470	471	571	636	688	529	625	613	618	644	495	23%
Gasoil/Diesel												
North America	126	123	142	99	267	210	172	103	283	128	86	32%
Europe	652	751	857	812	869	1073	924	1072	896	804	773	4%
Pacific	73	74	79	79	83	80	94	71	113	96	83	14%
Total OECD	850	947	1079	989	1218	1363	1190	1246	1292	1029	943	8%
Heavy Fuel Oil												
North America	326	453	525	566	610	481	321	260	331	371	474	-28%
Europe	398	405	491	526	470	521	479	478	449	511	452	12%
Pacific	88	76	85	90	82	122	105	98	110	107	69	36%
Total OECD	812	935	1101	1182	1163	1125	904	836	889	989	995	-1%
Other Products												
North America	680	872	1005	1166	1049	972	1162	1153	1182	1149	1267	-10%
Europe	690	676	796	807	801	888	856	893	843	832	908	-9%
Pacific	235	256	247	225	263	284	271	289	257	267	228	14%
Total OECD	1605	1805	2048	2197	2113	2145	2289	2336	2282	2249	2403	-7%
Total Products												
North America	1991	2466	2947	3185	3447	2903	3261	2999	3679	3091	3073	1%
Europe	2657	2767	3204	3315	3151	3619	3305	3208	3424	3279	3075	6%
Pacific	1879	1898	1852	1728	1812	2046	1960	1937	1885	2059	1870	9%
Total OECD	6527	7132	8003	8228	8410	8568	8526	8144	8988	8429	8018	5%
Total Oil												
North America	10061	10897	11332	11436	11548	10643	11527	10980	11858	11733	12013	-2%
Europe	11753	12245	13015	13397	13106	13001	12874	12484	12910	13227	12039	9%
Pacific	8590	8558	8653	8370	8779	9447	8471	8671	8728	8007	8223	-3%
Total OECD	30403	31699	33000	33203	33433	33091	32873	32135	33495	32966	32274	2%

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

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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 2006), 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 Platts prices, converted when appropriate to US$ per barrel according to the Platts specification of products (©2006 Platts - a division of McGraw-Hill Inc.).

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AGENCE INTERNATIONALE DE L'ENERGIE

11 October 2006

HIGHLIGHTS

- **Crude futures** held around $60/bbl in early October as emerging talk of OPEC cuts balanced seasonally weak product demand and a lull in crude buying by refiners ahead of maintenance. However, while crude futures have fallen by $18/bbl from their peak in early August, they remain historically high in both nominal and real terms.
- Slight downward revisions to the US leave **global oil demand** at 84.6 mb/d (+1.2% y/y) in 2006 and 86.0 mb/d in 2007 (+1.7%). While high oil prices, benign weather and low natural gas prices have contributed to a 0.2% contraction in 2006 OECD oil product demand, non-OECD growth is still robust, driven by China and the Middle East.
- **World oil output** fell 180 kb/d in September to 85.4 mb/d, led by lower OPEC supply. Recovering Alaskan and GOM production keep the non-OPEC 2006 forecast unchanged at 51.0 mb/d, but next year's non-OPEC total is revised 160 kb/d lower to 52.7 mb/d. Downward adjustments are in North America and several smaller non-OECD producers.
- September **OPEC crude supply** fell 155 kb/d to 29.8 mb/d, with reductions from Saudi Arabia, Iran and Nigeria. OPEC is discussing a further 1 mb/d cut which, if implemented, would raise effective spare capacity from its currently low 1.9 mb/d. The 4Q 'call on OPEC crude and stock change' averages 29.5 mb/d and 28.5 mb/d in 2007, subject to perennial winter demand and non-OPEC supply uncertainties.
- Total **OECD industry oil stocks** built by 22 mb in August. Increased refinery runs led to falling crude stocks in all regions but these were offset by higher product inventories. Distillate and 'other products' stocks in North America and the Pacific were notably higher. OECD forward demand cover came to 55 days, on a par with July and one day above last year.
- **OECD crude throughput** reached 40.3 mb/d in August, the third highest monthly average since January 2000. However, increased maintenance and voluntary run cuts in the Asia Pacific region will curtail runs in the short term, but throughput should seasonally rebound in 4Q.

Next Issue: 10 November 2006

CONTENTS

HIGHLIGHTS....1

CONTENTS....2

A DEFINING WINTER....3

DEMAND....4
- Summary....4
- Worldwide Overview....5
- Forecasting the World Economy and Demand Growth....6
- OECD....6
  - North America....8
  - Europe....9
  - Pacific....10
- Non-OECD....10
  - China....11
  - Assessing Chinese 'Teapot' Refineries....12
  - Other Non-OECD....13
- Distorted Prices and Fuel Demand: The Case of Iran....14

SUPPLY....16
- Summary....16
- OPEC....17
  - Between a Rock and a Hard Place....18
- OECD....20
  - North America....20
  - North Sea....22
- Former Soviet Union (FSU)....22
- Other Non-OPEC....24
  - Revisions to Other Non-OPEC Estimates....24

OECD STOCKS....26
- Summary....26
- OECD Industry Stock Changes in August 2006....27
  - OECD North America....27
  - OECD Europe....27
  - OECD Pacific....28
- OECD Inventory Position at End-August and Revisions to Preliminary Data....28
- Recent Developments in ARA Independent Storage....29
- Recent Developments in Singapore Stocks....29

PRICES....31
- Summary....31
- Overview....31
- Crude Oil Prices....32
- Another Look at Fuel Switching....34
  - Delivered Crude Prices in July....35
- Refining Margins....35
- Product Prices....37
  - End-User Product Prices in September....38
- Freight....39

REFINERY ACTIVITY....40
- Summary....40
- Refinery Throughput....40
  - OECD North America....41
- Constraints on Spare Refining Capacity....42
  - OECD Europe....43
  - OECD Pacific....43
  - Non-OECD Refinery Throughput....44
- Offline Refinery Capacity....44
- OECD Refinery Yields....45

TABLES....46

OIL MARKET REPORT CONTACTS

A DEFINING WINTER

This month's *Oil Market Report (OMR)* sheds further light on the recent sharp decline in the oil price: stocks are higher, demand is weaker than previously expected, the hurricane risk has been downgraded and recent gasoline tightness has eased. But, while some aspects of the market may be easing, there are others that remain tight.

Comprehensive monthly US demand data have, since last October, come in lower than provisional weekly data and a pattern of downward adjustments to the 2006 forecast has also emerged - effects we have now carried through for the rest of the third quarter and beyond. A small offset from a higher baseline may be seen next month following the release of more accurate US annual data for 2005 (as the *OMR* was going to press), but it should be noted that this report already contains an adjustment to accommodate an upward bias in annual revisions.

OECD demand is projected to be unchanged in 2006, with China and the Middle East largely responsible for this year's 1.0 mb/d of global growth. Even though prices have dampened oil demand growth from 2004's 3.1 mb/d, this year's lower growth will still lead to a record 86.5 mb/d this winter. Some of this demand should be offset by rising non-OPEC supplies, which should see quarterly growth of 1 mb/d and 0.8 mb/d in the fourth quarter and first quarter next year. But there are risks. Although a conservative start-up profile has been employed for the new projects coming on line this winter, the possibility that additional delay or disruption could dampen non-OPEC supplies by up to 400 kb/d each year is flagged every month in this report.

Even excluding an allowance for delays, the 'call on OPEC crude and stock change' reaches 29.5 mb/d in 4Q before easing to 29 mb/d in the first quarter of next year. Allowing for the average 0.7 mb/d statistical difference between supply and demand raises the 'call' to 30.2 and 29.7 mb/d respectively. While the statistical difference appears to be seasonal and lower in the winter months, the concentration of project start-ups in these two quarters increases the potential for delay. Either way, the next six months are likely to see a call on OPEC oil not vastly different from the producer group's current output.

The stock picture, heading into the winter months, appears better than it has for several years. Upward revisions to OECD June and July data raise the baseline and provisional August data post a counter-seasonal build. This trend continued in weekly Japanese and US numbers, which suggests rising stocks in the third quarter. Overall, OECD commercial petroleum stocks have built in recent months to around 55 days of forward supply. Although at the higher end of the five-year range, this comparison is within a period when stocks have generally been tight. Further, heading into winter, forward demand cover of OECD middle distillate stocks is mid-range at 32 days, while those of gasoline remain tight. Brimming fuel oil stocks are of little use considering the structural shifts in oil demand.

Crude stocks are not out of line with winter demand needs and in the current troubled geopolitical climate this is welcome. Negotiations with Iran over nuclear issues and the fall in the gasoline price may have shifted oil market concerns in the past few weeks, but geopolitical risks remain. Further, since forward prices are higher than spot prices, this stock cushion can also be financed by the markets for a considerable forward period, leaving little incentive for the market to use this as a day-to-day source of supply.

Moreover, there are factors beyond the crude balance that explain recent high prices. This report has regularly emphasised the importance of refinery upgrading tightness as a factor in high oil prices and argued that much of the second quarter price rise reflected the challenges of meeting changing product specifications and environmental regulations in the summer months.

Weakening gasoline prices were a major factor behind the fall in the crude market in August and September, but do not in themselves suggest that the crude balance has shifted. While the consequent fall in refining margins, together with seasonal maintenance, triggered weaker crude demand, these are likely to be temporary factors. More certain is that geopolitics, tight upstream capacity and cold weather demand have the potential to inflict more price volatility on a finely balanced market this winter. With or without rumoured OPEC output cuts, the short-term price risks seem skewed to the upside. But ironically the more pervasive factor could be a repeat of the low oil demand growth seen over the past two years - an outcome all the more likely if oil prices return to second quarter peaks, but one that is still possible if prices stay at current levels (which were, after all, considered high just one year ago).

DEMAND

Summary

- **Global oil product demand** has been lowered slightly to 84.6 mb/d in 2006 (+1.2% compared to 2005) and to 86.0 mb/d in 2007 (+1.7% versus 2006). This follows a relatively optimistic assessment of the world's economic outlook by the International Monetary Fund, coupled with downward revisions in North America. Global demand is expected be pulled up by strong non-OECD consumption.

Global Oil Demand from 2005 to 2007

	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)	84.6	82.4	83.2	84.0	83.5	84.9	83.0	84.2	86.2	84.6	86.5	84.5	85.8	87.4	86.0
Annual Change (%)	2.6	1.5	1.4	-0.1	1.3	0.4	0.8	1.2	2.6	1.2	1.9	1.7	1.9	1.3	1.7
Annual Change (mb/d)	2.1	1.2	1.1	-0.1	1.1	0.3	0.6	1.0	2.2	1.0	1.6	1.4	1.6	1.1	1.4
Changes from last month's report (mb/d)	0.0	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.3	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2

Global Oil Demand by Region
(million barrels per day)

	Demand		Annual Change			Annual Change (%)		
	2006	2007	2005	2006	2007	2005	2006	2007
North America	25.44	25.75	0.09	-0.03	0.31	0.3	-0.1	1.2
Europe	16.20	16.18	0.01	0.00	-0.02	0.1	0.0	-0.1
OECD Pacific	8.54	8.52	0.10	-0.05	-0.02	1.2	-0.6	-0.2
China	7.04	7.43	0.17	0.42	0.39	2.6	6.4	5.5
Other Asia	8.88	9.10	0.16	0.09	0.22	1.8	1.1	2.5
Subtotal Asia	24.46	25.05	0.43	0.46	0.59	1.8	1.9	2.4
FSU	3.90	3.93	0.05	0.09	0.03	1.3	2.4	0.8
Middle East	6.45	6.80	0.32	0.33	0.35	5.6	5.4	5.4
Africa	2.94	3.02	0.08	0.07	0.07	3.0	2.4	2.4
Latin America	5.19	5.30	0.13	0.10	0.11	2.7	1.9	2.2
World	84.57	86.02	1.11	1.03	1.45	1.3	1.2	1.7

- **OECD oil product demand** has been revised downwards by 80 kb/d in 2006 and 190 kb/d in 2007, as a result of the IMF's reassessment of the US economy and adjustments to preliminary US data. As such, OECD oil product demand is now forecast to contract by 0.2% in 2006 to 49.4 mb/d, and increase modestly by 0.5% to 49.7 mb/d in 2007. More adjustments to OECD figures may occur, following the release of official revisions to US 2005 demand, a reappraisal of forthcoming winter demand and further signs of a slowing US economy.

Unadjusted Preliminary Inland Deliveries - August 2006[1]

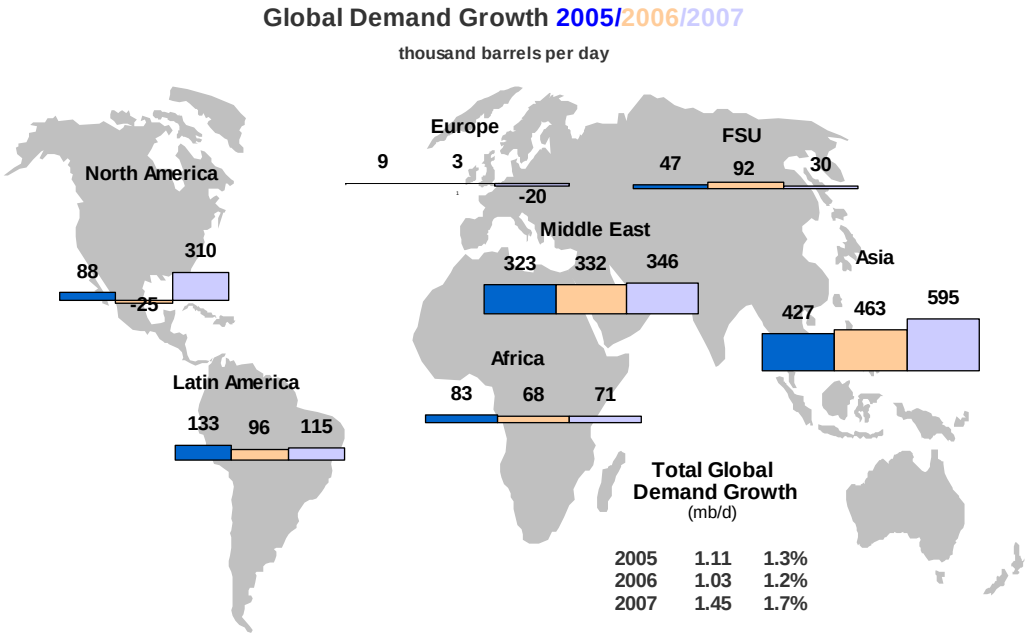
	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other[2]		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
USA[3]	9.59	1.5	1.70	2.8	3.30	7.6	0.80	-12.2	0.65	-35.6	5.2	-0.7	21.24	-0.4
Canada	0.76	0.0	0.13	-3.8	0.52	6.2	0.04	-2.8	0.12	-8.7	0.3	2.3	1.87	1.1
Mexico	0.73	7.6	0.06	1.6	0.36	7.9	0.00	na	0.27	-23.3	0.4	0.8	1.79	0.0
Japan	1.14	-4.1	0.24	-21.5	0.61	-5.0	0.36	-15.0	0.38	-22.9	1.6	9.5	4.30	-4.1
Korea	0.18	-2.7	0.08	5.6	0.38	3.8	0.03	-40.0	0.21	8.3	1.2	5.5	2.03	3.5
France	0.25	-8.7	0.15	1.1	0.62	0.7	0.24	-30.0	0.05	0.9	0.4	-0.6	1.73	-6.7
Germany	0.52	-6.3	0.20	2.7	0.59	-2.9	0.54	-17.4	0.11	-5.2	0.5	-3.1	2.45	-6.9
Italy	0.30	-7.1	0.10	0.3	0.46	3.2	0.08	-3.3	0.08	-17.7	0.4	-6.1	1.37	-3.7
Total	**13.47**	**0.4**	**2.64**	**-0.4**	**6.84**	**4.1**	**2.07**	**-16.6**	**1.87**	**-23.5**	**9.9**	**1.3**	**36.79**	**-1.4**

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.
Note: Adjustments may be made to Preliminary Inland Delivery data when used in this report.

- **Non-OECD oil product demand** remains virtually unchanged at 35.1 mb/d in 2006 (+3.3% compared to 2005) and 36.3 mb/d in 2007 (+3.4% versus 2006). Non-OECD consumption continues to be sustained by China's strong demand in most product categories, as well as robust growth in the Middle East. China's apparent consumption is expected to grow by 6.4% in 2006 and by 5.5% in 2007.

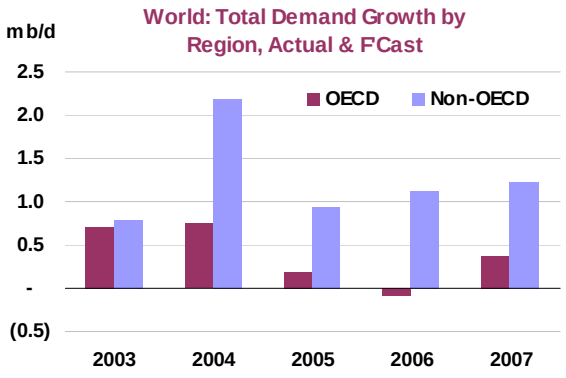
Worldwide Overview

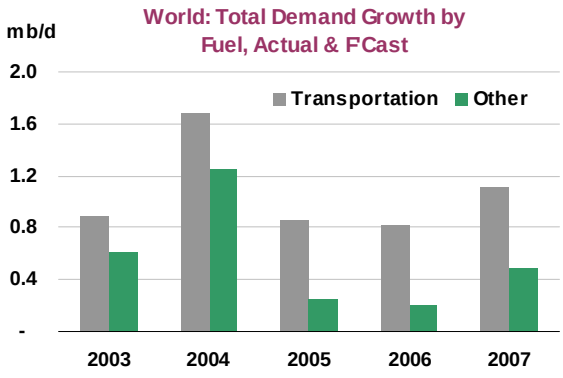
The latest IMF economic outlook portrays a relatively buoyant global economy despite anecdotal signs of a US slowdown. As noted in the text box below, the Fund made only minor adjustments to its projections, with the major exception of China, the fourth largest economy at market exchange rates. Overall, this economic picture argues for close-to-trend global oil product demand in 2007. Taking into account the Fund's economic outlook, coupled with downward revisions in North America, we have kept our global growth forecasts essentially unchanged compared to our last report: we foresee demand growing by +1.2% in 2006 to 84.6 mb/d, and by +1.7% in 2007 to 86.0 mb/d.



Although in absolute terms global demand growth in 2006 is expected to be similar to that of 2005 (roughly +1.0 mb/d in each year), it now stands to rebound in 2007 by about +1.5 mb/d. The relentless rise of transportation fuel prices (gasoline, jet fuel, diesel and bunkers), coupled with benign weather conditions (no hurricanes and mild temperatures) and lower natural gas prices, has arguably contributed to moderate growth this year. The picture, however, is blurred given the significant differences that can be observed across regions. For example, many small Asian countries were forced to abandon costly subsidies, thereby smothering domestic demand, while other big consumers are reluctant to curb their own consumption for domestic political reasons.

In 2007, demand is expected to be pulled up by strong non-OECD consumption, particularly from China (for which the IMF just raised its GDP forecast over 2007-2011, to roughly 9.5% per year on average). Although OECD consumption accounts for almost 60% of worldwide demand, over 80% of global demand growth is attributable to non-OECD countries (according to 2005 data). This reflects ongoing structural changes in the world economy, since several non-OECD nations will be among the largest economies in the medium term. Moreover, most of these economies are generally much more energy-intensive per unit of GDP.





Meanwhile, the trend in OECD countries over the past few years has been of little or no growth in oil product demand, despite offsetting differences (e.g., gasoline consumption increasing in the US but declining in Europe). Subject to normal winter weather caveats, we also expect total aggregate demand in 2006 to be similar to that observed in 2005.

In terms of fuels, the consumption of transportation fuels is growing much faster than other categories – industrial demand for products such as naphtha and fuel oil is falling as users switch to currently cheaper natural gas or even coal. LNG, in particular, has increased the availability of natural gas in Asia/Pacific. In the US, natural gas has been cheaper than fuel oil for some months, but the discount has increased as prices plummeted because of mild weather, rising stocks and a lacklustre hurricane season (from $15.8/MBtu in December 2005 to $4.8/MBtu in October 2006).

Forecasting the World Economy and Demand Growth

Despite growing concerns about the slowdown of the world economy and its likely consequences for global oil product demand, the IMF's latest *World Economic Outlook*, published in mid-September, is cautiously optimistic. The Fund made only minor revisions to its forecasts, particularly for the largest ten economies, compared to those of April 2006.

Although the IMF has lowered its US forecast for 2007-10, it leaves unchanged its prognosis for 2006. Moreover, over the next four years the US is still seen growing at a respectable 3% annually on average. More significantly, the Fund has raised its Chinese growth forecast by 0.5 percentage point this year and by a full point for the next four years. Improved prospects in France, Japan and Russia will also contribute to offset slower US growth. It should be noted that this report makes interim adjustments to its economic model where appropriate, based on the figures provided by the IMF, the OECD and Consensus Economics.

The World's Ten Largest Economies	GDP Annual Change, %				Difference vs. Previous (April 2006)			Rank 2005
	2005	2006	2007	2010	2006	2007	2010	At Mkt Exchange Rates
Brazil	2.28	3.65	3.96	3.53	0.15	0.45	0.03	10
Canada	2.94	3.10	2.95	2.90	0.02	(0.06)	0.00	8
China	10.20	10.00	10.00	9.00	0.50	1.00	1.00	4
France	1.19	2.38	2.30	2.42	0.35	0.17	0.20	6
Germany	0.87	2.05	1.30	1.61	0.71	0.29	(0.35)	3
Italy	(0.04)	1.54	1.34	1.60	0.30	(0.06)	(0.14)	7
Japan	2.62	2.67	2.12	1.84	(0.13)	0.05	0.16	2
Spain	3.43	3.45	2.95	3.24	0.12	(0.23)	0.08	9
United Kingdom	1.86	2.75	2.75	2.60	0.23	0.08	(0.01)	5
United States	3.22	3.43	2.92	3.11	0.01	(0.41)	(0.12)	1

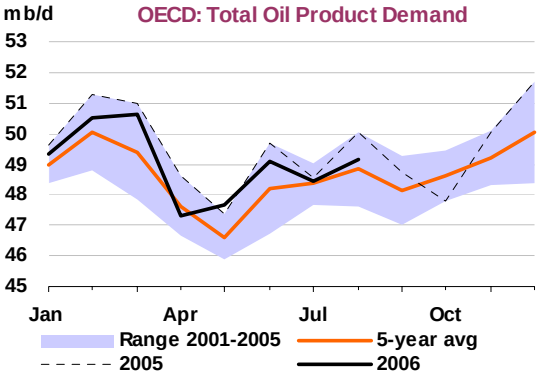
Source: International Monetary Fund, World Economic Outlook, 2005 and 2006 editions

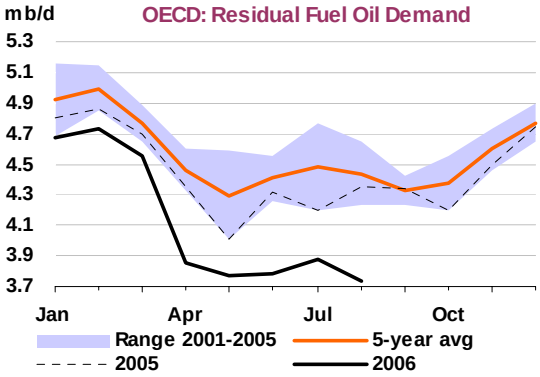
But even if the world economy seems to be so far in better shape than anticipated, with the US economy holding its own and China's continuing to roar ahead, the IMF warns about risks of slowdown, notably in the US. Anecdotal evidence – recent, weaker-than-expected manufacturing surveys by the Federal Reserve Bank of Philadelphia and the Institute of Supply Management, falling bond yields and concerns about cooling house prices – suggests a slowing growth trends.

Over the past three years high prices have somewhat dampened oil product demand in several countries, although strong product growth in key economies – in particular the US and China – has sustained overall consumption. Oil product demand growth nowadays depends on non-OECD countries, despite the higher consumption share of the OECD. China, in particular, will likely account for the bulk of demand growth. Most non-OECD countries are generally much more energy-intensive (per unit of GDP), and will probably benefit should a more stable price environment emerge next year, after the swings observed in 2006. In the OECD, by contrast, the trend over the past few years has been little or no growth in oil product demand as a whole.

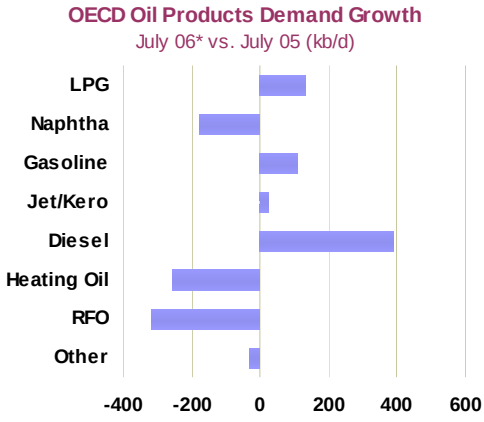
OECD

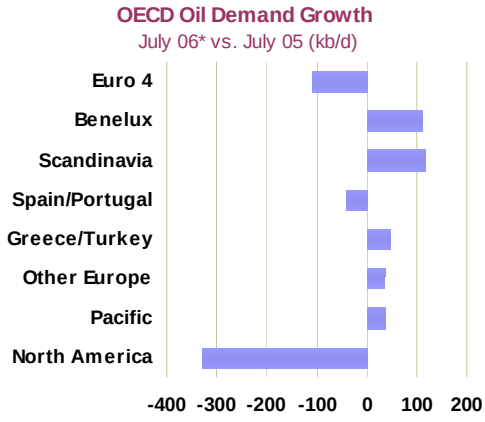
Preliminary August data indicate that inland deliveries in the OECD were weak (-1.9% versus levels of a year ago) across all regions (North America: -1.1%; Europe: -3.1%; Pacific: -2.0%). Nevertheless, demand is more vigorous than it appears if residual fuel oil and heating oil are excluded; indeed, residual use in the OECD fell by 14.1%, compared to August 2005, while heating





oil demand shrank by 9.2%. As noted earlier, the falling demand for industrial products such as fuel oil is arguably related to much cheaper natural gas, particularly in the US. By contrast, gasoline, diesel and jet/kerosene demand held their ground in a month usually characterised by the end of the holiday travel peak and subdued economic activity, particularly in Europe.





* Latest official OECD submissions (MOS)

With respect to our last report, in the light of the IMF's current assessment of the US economy and adjustments to US data, we have slightly revised downwards our OECD demand forecast for both 2006 (-0.2% year-on-year to 49.4 mb/d) and 2007 (+0.5% to 49.7 mb/d). But, as noted in the following section, more revisions to OECD North America may be forthcoming with the release of official revisions to 2005 US demand by the Energy Information Administration (EIA). Other factors that may impinge on the outcome are whether the winter in the US and Europe will be relatively mild given the weather phenomenon *El Niño*, and whether the US economy will show further signs of slowing. However, it should be noted that this report's forecasts are based on 'normal' weather conditions – that is, historic averages.

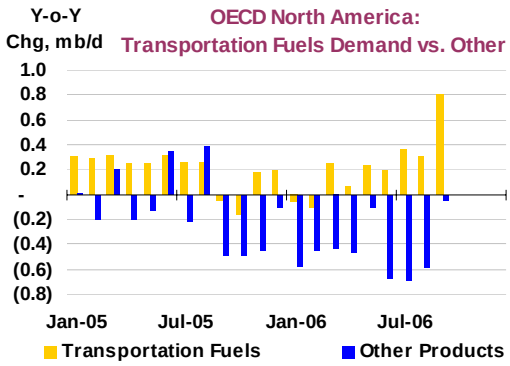
Total OECD Demand by Product
(million barrels per day)

	2005	2006	3Q05	4Q05	1Q06	2Q06	May 06	Jun 06	Jul 06*	Latest month vs. Jun 06	Latest month vs. Jul 05
LPG & Ethane	4.69	4.67	4.31	4.73	4.98	4.40	4.38	4.46	4.38	-0.08	0.13
Naphtha	3.21	3.17	3.24	3.09	3.18	2.92	2.96	2.94	3.09	0.15	-0.18
Motor Gasoline	14.87	14.93	15.19	14.75	14.35	14.98	14.95	15.24	15.44	0.20	0.11
Jet & Kerosene	4.22	4.24	3.96	4.38	4.52	4.02	3.89	4.02	3.99	-0.04	0.03
Gas/Diesel Oil	13.06	13.21	12.75	13.39	13.74	12.66	12.60	12.92	12.31	-0.60	0.13
Residual Fuel Oil	4.44	4.15	4.30	4.48	4.65	3.80	3.77	3.78	3.88	0.10	-0.32
Other Products	5.05	5.07	5.38	5.03	4.72	5.22	5.09	5.72	5.34	-0.38	-0.03
Total Products	**49.53**	**49.44**	**49.13**	**49.86**	**50.13**	**48.00**	**47.64**	**49.08**	**48.43**	**-0.65**	**-0.13**

* Latest official OECD submissions (MOS)

North America

Provisional figures show that motor gasoline and jet/kerosene deliveries in OECD North America were strong in August, rising by 1.9% and 4.2%, respectively, compared to August 2005, while diesel demand increased by a more modest 0.4%, as weak demand in the US offset strong gains in Canada and Mexico. The region's overall demand, however, was actually negative compared to levels of a year ago (-1.1%), as transportation fuel deliveries were offset by large falls in other categories, particularly residual fuel (-28.9%) and 'other products' (-4.3%). Within the region, transportation fuels represent more than 60% of total consumption, with the US accounting for roughly 90% of that total.



According to preliminary data, deliveries of gasoline and jet fuel in the continental **United States** rose by 1.6% and 5.1%, respectively, compared to August 2005. However, lower deliveries of diesel (-0.6%), residual fuel oil (-37.4%) and other products (-3.0%) offset these gains and pushed total US petroleum deliveries down by 1.1% versus last year's levels.

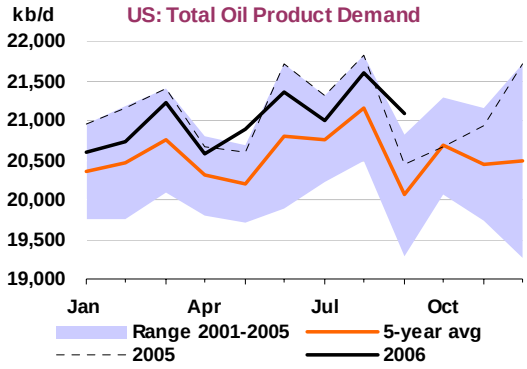
OECD North America Demand by Product

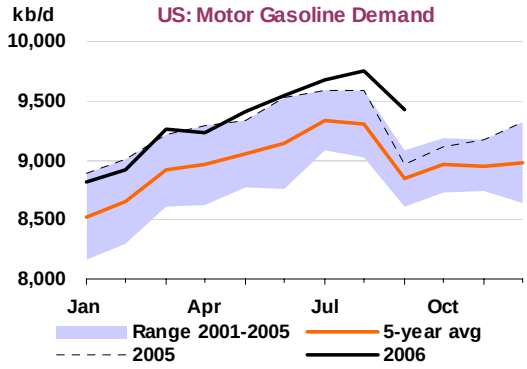
(million barrels per day)

	2005	2006	3Q05	4Q05	1Q06	2Q06	May 06	Jun 06	Jul 06*	Latest month vs. Jun 06	Latest month vs. Jul 05
LPG & Ethane	2.80	2.81	2.58	2.81	2.98	2.64	2.62	2.61	2.61	0.00	0.04
Naphtha	0.45	0.44	0.50	0.30	0.36	0.40	0.45	0.40	0.39	-0.01	-0.22
Motor Gasoline	10.61	10.76	10.77	10.58	10.35	10.80	10.82	10.98	11.10	0.12	0.14
Jet & Kerosene	1.93	1.93	1.93	1.97	1.87	1.95	1.92	1.98	1.96	-0.02	-0.02
Gas/Diesel Oil	5.08	5.18	4.93	5.14	5.35	5.01	5.06	5.01	4.84	-0.17	0.09
Residual Fuel Oil	1.57	1.31	1.61	1.62	1.43	1.15	1.12	1.15	1.20	0.06	-0.30
Other Products	3.01	3.01	3.18	3.02	2.77	3.14	3.05	3.51	3.10	-0.41	-0.06
Total Products	**25.46**	**25.44**	**25.50**	**25.43**	**25.11**	**25.09**	**25.05**	**25.64**	**25.21**	**-0.44**	**-0.33**

* Latest official OECD submissions (MOS)

With the end of the driving season and no major hurricane in sight, retail gasoline prices fell by 20 cents per gallon to $2.84 at the end of August (and $2.67 in mid-September) – the most rapid fall off since last year's hurricanes. Retail diesel prices, by contrast, barely budged from $3/gallon, thus explaining the relative weakness of diesel demand despite a somewhat robust highway freight transport. Demand for transportation fuels is likely to remain relatively strong until the end of year, compared to last year's post-hurricane price spike which, coupled with logistical supply issues, restricted consumption in 4Q05. Meanwhile, the strong rise in jet fuel may indicate some saturation in the drive by airlines to reduce costs and increase revenues by filling more seats per flight. However, it should also be noted that the recent sharp fall in prices may distort buying patterns and end-user stocking, which will be reflected in demand data.





The collapse of residual fuel oil deliveries is explained by lower demand from power generators since mid-August as temperatures became milder in the northeast. Only in Florida was consumption sustained, as temperatures remained higher than normal. These swings in demand are also indicative

of fuel oil's strong linkage to natural gas prices. Last year gas prices were higher than oil on an energy-equivalent basis, but today the reverse is true, thereby encouraging fuel oil substitution by industrial users and utilities.

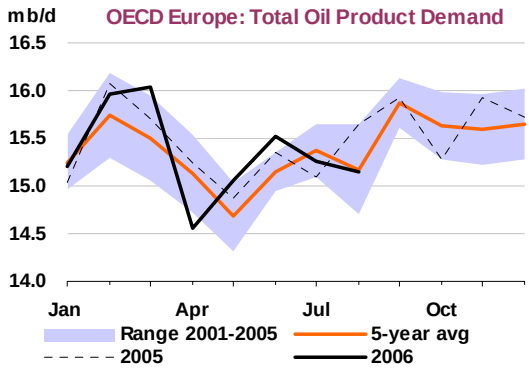
The EIA posted revisions of -285 kb/d to preliminary July data, mostly because of adjustments in naphtha, motor gasoline and diesel demand. It should be noted that at the time this report went to press the EIA was due to release the latest edition of the Petroleum Supply Annual (PSA), which revises 2005 data. As we have noted in previous issues, we have included an estimated revision in our forecast since the release of last year's PSA, based on changes to past annual data. Nevertheless, we may further adjust US figures in next month's report in the light of PSA data.

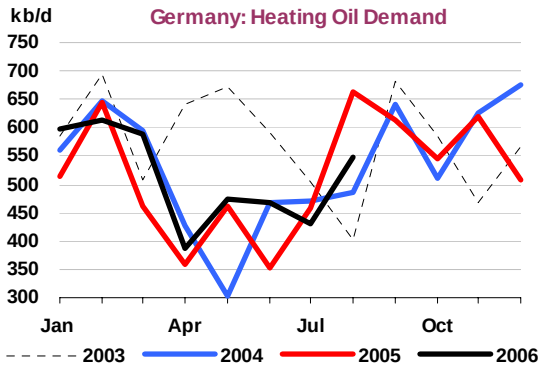
Finally, the fall of retail gasoline prices is a welcome relief to most consumers, and by contrast to last year's post-hurricane highs, will help curb inflationary expectations. Nevertheless, economic activity is likely a greater determinant of gasoline consumption (and more generally, of transportation fuels) than shifts in retail prices. As already noted, the IMF has only marginally reduced its short- and medium-term forecast of the US economy, suggesting a resilient view despite recent concerns about stagnating or declining house prices, industrial activity and business and consumer confidence in several key states.

Europe

In general terms, August – the peak of the summer holiday season in Europe and the trough of economic activity – usually posts low oil product deliveries. This year was no exception. Summer demand for transportation fuels faded in Europe (-5.0% for gasoline and -0.3% for diesel versus August 2005), although jet fuel remained strong (+5.9%). Heating oil fell sharply (-15.1%), while residual fuel oil stagnated.

In terms of the main consuming countries, growth in jet/kerosene sales was relatively low in **France** and **Italy** with respect to levels of a year, as well as in the UK (following disruption from the alleged terrorist plot at Heathrow Airport). Wholesale heating oil deliveries also fell in **France** and **Germany** (mostly because last year's demand was unusually strong), although in Germany the filling of domestic heating oil tanks continues at the highest pace seen in the last three years. In Italy, meanwhile, fuel oil demand for power generation dropped significantly, despite power demand for air-conditioning. Electricity needs were met with greater hydro supplies, as well as by gas-fired plants. The continued forward price discount of natural gas to fuel suggests that the decline of fuel oil use could accelerate.





By early September, Germany's domestic heating oil tanks were filled at 60% versus some 52% a year before and 55% in early August (the 20-year average filling rate ahead of winter is 80% by early autumn). There was ample availability of heating oil from the US Gulf Coast, itself the result of arbitrage conditions that favoured the movement of gasoline to Europe.

Moreover, the impending hike in the consumption tax (VAT) from 16% to 19% and fears of disrupted supplies from Iran likely prompted households to bring forward their restocking, as opposed to the hand-to-mouth pattern of the past years. It should be noted that Germany is the largest heating oil market in Europe, accounting for almost 23% of total heating oil consumption (German tanks have a 3,000-4,000 litre capacity, compared to some 500 litres elsewhere in Europe). The large size of Germany's tanks helps explain the volatility of its heating oil market: households tend to stay out of the market for long periods if prices are high and to buy large volumes when prices fall. In sum, German tank-filling is so far supporting heating oil demand, but could translate into weaker demand early next year when tanks are full.

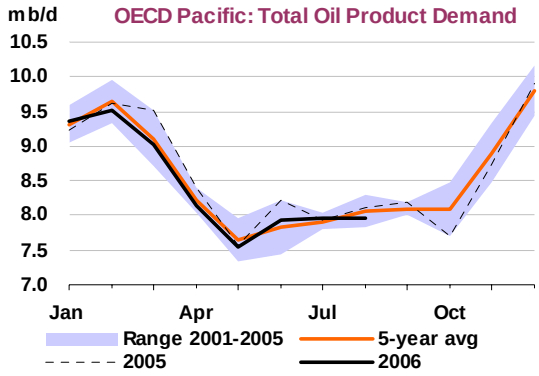
OECD Europe Demand by Product
(million barrels per day)

	2005	2006	3Q05	4Q05	1Q06	2Q06	May 06	Jun 06	Jul 06*	Latest month vs. Jun 06	Latest month vs. Jul 05
LPG & Ethane	1.00	0.97	0.91	1.04	1.09	0.92	0.95	0.96	0.87	-0.10	0.02
Naphtha	1.18	1.13	1.15	1.21	1.17	1.04	1.01	1.03	1.07	0.04	-0.06
Motor Gasoline	2.65	2.56	2.75	2.56	2.43	2.62	2.62	2.68	2.69	0.01	-0.06
Jet & Kerosene	1.24	1.30	1.33	1.23	1.23	1.32	1.31	1.39	1.34	-0.05	0.04
Gas/Diesel Oil	6.10	6.18	6.07	6.34	6.47	5.86	5.85	6.05	5.81	-0.23	0.10
Residual Fuel Oil	1.82	1.83	1.70	1.80	2.06	1.70	1.71	1.72	1.78	0.05	0.05
Other Products	1.49	1.49	1.64	1.46	1.28	1.58	1.59	1.69	1.72	0.03	0.07
Total Products	**15.48**	**15.47**	**15.55**	**15.64**	**15.72**	**15.04**	**15.06**	**15.51**	**15.26**	**-0.25**	**0.17**

* Latest official OECD submissions (MOS)

Pacific

According to preliminary inland delivery figures, oil product demand in OECD Pacific was quite weak in August, falling by 2.0% year-on-year. This sluggish growth was mostly related to bad weather early in the month and high retail prices of gasoline. As such, strong gains in LPG, naphtha and 'other products' were offset by weak demand in gasoline and diesel (-3.0% and -1.8% respectively versus levels of a year ago), particularly in Japan.



Oil product sales in **Japan** fell in August as high prices hit gasoline consumption at the height of the summer holiday season. Gasoline retail prices hit an all-time high of $1.22/litre, thus discouraging demand despite much better weather than in July. Strong kerosene demand slowed down as stockpiling got close to completion in anticipation of winter (kerosene is used for heating). Finally, there was continued weak residual and direct-burning crude consumption due to high natural gas imports. Overall, Japanese demand tumbled by 4.3% compared to August 2005.

OECD Pacific Demand by Product
(million barrels per day)

	2005	2006	3Q05	4Q05	1Q06	2Q06	May 06	Jun 06	Jul 06*	Latest month vs. Jun 06	Latest month vs. Jul 05
LPG & Ethane	0.89	0.89	0.82	0.88	0.92	0.84	0.81	0.88	0.90	0.02	0.08
Naphtha	1.58	1.60	1.58	1.58	1.65	1.48	1.49	1.51	1.63	0.12	0.10
Motor Gasoline	1.61	1.61	1.66	1.61	1.57	1.56	1.52	1.58	1.65	0.07	0.03
Jet & Kerosene	1.04	1.01	0.70	1.19	1.42	0.75	0.65	0.65	0.69	0.03	0.01
Gas/Diesel Oil	1.87	1.85	1.75	1.91	1.92	1.79	1.68	1.86	1.66	-0.20	-0.05
Residual Fuel Oil	1.05	1.02	0.98	1.07	1.16	0.95	0.94	0.91	0.90	-0.01	-0.07
Other Products	0.55	0.57	0.57	0.55	0.67	0.50	0.45	0.52	0.53	0.00	-0.05
Total Products	**8.59**	**8.54**	**8.07**	**8.79**	**9.30**	**7.87**	**7.53**	**7.92**	**7.96**	**0.04**	**0.04**

* Latest official OECD submissions (MOS)

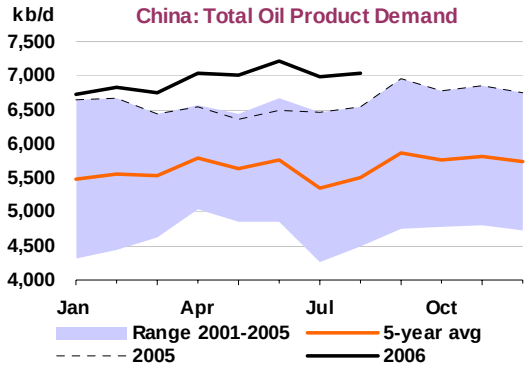
In **Korea**, oil product demand was positive in August (+2.2% versus the previous year), after two months of sluggishness, driven by gains in all product categories bar gasoline and kerosene (-2.7% and -11.0%, respectively). The weakness in kerosene deliveries suggests that consumers may be waiting for better prices before refilling ahead of winter (as in Japan, kerosene is used for heating).

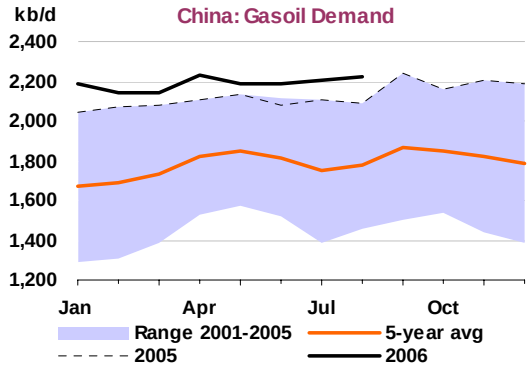
Non-OECD

Our forecast of non-OECD oil product demand remains essentially unchanged, as very minor revisions to 2005 and 2006 data offset each other. Non-OECD demand is expected to average 35.1 mb/d in 2006 (-27 kb/d compared to our last report, implying a growth rate of 3.3% versus 2005), and 36.3 mb/d in 2007 (-8 kb/d from last month's report and 3.4% higher than this year).

China

Apparent demand grew by 7.5% on an annual basis in August, broadly in line with projections and driven by all product categories, especially gasoline (+16%), gasoil (6.2%) and fuel oil (27.3%). There was a -135 kb/d revision in July, resulting in a minor downward change to our growth forecast for 2006 (+6.4% year-on-year). For 2007, the forecast is virtually unchanged at +5.5%, reflecting the strong outlook of the Chinese economy.



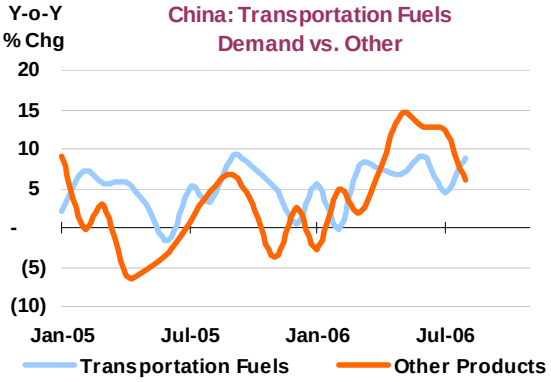


Jet fuel imports were strong in August, following on from a buoyant July, as a result of both strong passenger traffic and the political decision to maximise diesel production at the expense of aviation fuels. The country's main importer, the Singapore-based Chinese Aviation Oil Corp. (CAO), reportedly purchased record volumes in July (500,000 tonnes) in anticipation of October's Golden Week holiday. CAO's virtual monopoly will now become more explicit: the General Administration of Civil Aviation (CAAC) announced recently that China will get rid of its private aviation fuel market next year, allegedly out of safety concerns (aviation fuel suppliers without the requisite civil aviation fuel licence will be forced out).

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2005	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
LPG & Ethane	638	620	627	-18	6	-2.8	1.0
Naphtha	774	885	949	112	63	14.5	7.1
Motor Gasoline	1091	1179	1264	89	84	8.1	7.2
Jet & Kerosene	238	268	286	31	18	12.8	6.6
Gas/Diesel Oil	2127	2239	2416	112	177	5.3	7.9
Residual Fuel Oil	787	800	792	12	-7	1.6	-0.9
Other Products	966	1052	1098	86	47	8.9	4.4
Total Products	**6621**	**7044**	**7432**	**423**	**388**	**6.4**	**5.5**

Gasoil (diesel) demand normally surges in early August driven by the agricultural cycle (tractors and other machinery) and by the end of the fishing ban (boats). This year, however, demand was somewhat subdued in southern China, as a result of very bad weather (two typhoons – 'Kaemi' and 'Prapiroon' – hit the country in late July and early August), which curbed agricultural and fishing activity, and high prices, which deterred stock building. In Guangdong province, high prices were largely attributable to limited supplies in typhoon-affected areas, strong transportation demand, rumours of an impending price hike and refinery maintenance. As such, diesel shortages were reported in several service stations across the industrial heartlands.



This suggests that the government's efforts to encourage diesel production in August had limited success and that refiners were reluctant to import

diesel that they would sell at a loss domestically (nonetheless, state-owned companies have little choice: over the past two months PetroChina purchased four diesel cargoes to meet Guangdong's peak demand in September and October). Nevertheless, the fall of global crude oil prices, combined by domestic shortage-induced high diesel prices, has reportedly rendered profitable the importation of diesel. In fact, there were reports of diesel smuggling from neighbouring Hong Kong.

China Crude & Product Trade
(thousand barrels per day)

	2004	2005	3Q2005	4Q2005	1Q2006	2Q2006	Jun 06	Jul 06	Aug 06	Latest month vs. Jul 06	Aug 05
Net Imports/(Exports) of:											
Crude Oil	2346	2387	2294	2407	2872	2821	2787	2414	2618	204	668
Products & Feedstocks	661	480	445	599	512	772	964	738	754	16	401
Gasoil/Diesel	43	-19	-40	-3	-10	-14	-22	-12	-12	0	59
Gasoline	-125	-130	-155	-55	-107	-56	-34	-52	-86	-34	147
Heavy Fuel Oil	506	418	397	402	406	522	654	624	578	-46	204
LPG	201	194	216	182	146	227	238	110	113	3	-118
Naphtha	-33	-35	-25	1	-15	-36	-32	-23	-37	-15	10
Jet & Kerosene	16	11	2	30	43	33	73	-4	75	79	50
Other	52	41	49	42	49	96	87	94	123	29	49
Total	3008	2867	2739	3006	3384	3593	3750	3152	3373	220	1069

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

Higher-than-expected fuel oil imports were also reported in August, but not for electricity generation but rather for use as feedstock in 'teapot' refineries as a result of higher cracking margins. Nevertheless, demand remained somewhat sluggish. Straight-runs by teapot refineries were reported to diminish in the second half of the month in Guangdong, while demand from power utilities remained stable (because of rainy, colder weather in some regions and uncertainties surrounding price subsidies). In late August, however, there were reports of eastern China utilities stepping up their purchases of fuel oil in view of power shortages in south-western China (notably drought-stricken Sichuan province, as well as Guangdong).

Indeed, despite improved electricity generation capacity (mostly coal & hydro), power shortages are expected in Guangdong in 4Q06. This will be the consequence of marginally higher domestic fuel oil prices (as the province is particularly dependent upon oil-fired generation), capped electricity retail prices (despite a recent increase, not high enough to offset generating losses) and higher power demand (mostly from air-conditioning, both in households and offices, as post-typhoon weather returns to warmer patterns). However, while power shortages persist, the incremental use of oil in power generation is expected to fall, on average, after 2006.

Assessing Chinese 'Teapot' Refineries

'Teapot' refineries are independent units with a processing capacity of some 10 kb/d on average, about one tenth of that of major refineries – which usually lack access to crude supplies (controlled by Chinese oil majors) and therefore use straight-run fuel oil as a feedstock to produce diesel, residual and bitumen. Total teapot capacity is estimated in this report at some 700 kb/d. However, by its very nature, there is considerable uncertainty regarding this figure, which could be higher.

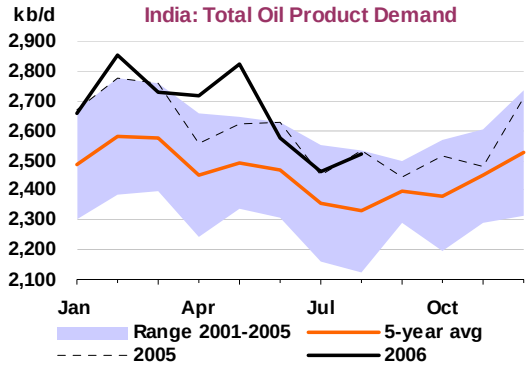
Although these refineries are officially singled out as threats to the country's energy security and environment, they provide a lifeline to farmers and fishermen during demand peaks and to private companies using small electricity generators for air conditioning in summertime.

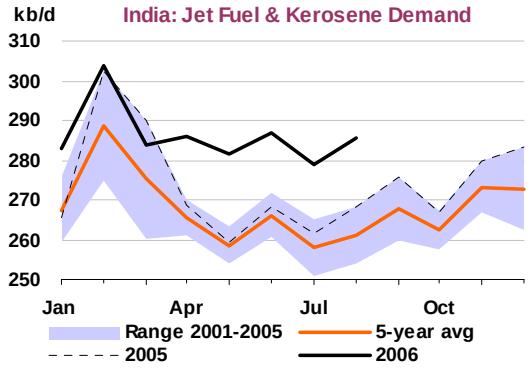
Teapot refineries thus fill a supply gap of off-specification diesel, low-quality residual and bitumen, and will likely continue to be tolerated. In addition, most teapot refineries are well entrenched in their local economies – they often are a significant source of employment and revenue for local governments. Nevertheless, the gradual liberalisation of China's downstream market may eventually eliminate the less efficient units.

Other Non-OECD

Preliminary **Indian** data for August were not available at the time of going to press. Nevertheless, we estimate that demand fell slightly in that month by 0.4% on a year-on-year basis, given subdued gasoil consumption during most of August owing to extreme weather. There were reports of more rains, flooding and pest attacks following those of July, which have further curbed sugarcane, cotton and oilseeds crops in western, southern and eastern India. For example, the western, almost arid, state of Rajasthan was flooded by monsoon rains, causing widespread destruction and many casualties.

As in recent months, naphtha exports continued to be strong, suggesting again structurally weak domestic demand, as natural gas continues to make inroads. In fact, the government removed a 5% duty on LNG imports, provided that these are directed to the power sector. Indeed, given gas shortages, some 40% of the country's 12,700 MW of gas-fired generation capacity is unutilised, while several, recently completed petrochemical plants in Pradesh are idle. The move will likely encourage more spot purchases of LNG, which will become competitive compared to coal, and a continued decline in naphtha consumption.





Jet fuel demand has so far been buoyant (+6.4% in August compared to last year's level), despite an increasing fuel surcharge that can exceed low-cost fares (another hike occurred on 5 September, the third in as many months). This raises concerns about the sustainability of growth in India's aviation industry. Costs have significantly increased because of rising jet fuel prices (fuel represents some 33% of operating costs, compared to a worldwide average of 25%), while yields per passenger have plummeted given strong competition. Moreover, the market is de facto controlled by state-owned Indian Oil Corp., with a 67% share of domestic jet fuel sales. As a result, private refiners such as Reliance are obliged to export most of their jet fuel production.

India Crude & Product Trade
(thousand barrels per day)

	2004	2005	3Q2005	4Q2005	1Q2006	2Q2006	May 06	Jun 06	Jul 06*	Latest month vs. Jun 06	Latest month vs. Jul 05
Net Imports/(Exports) of:											
Crude Oil	1945	1927	1965	1882	2216	2187	2231	2528	2369	-159	549
(by Public Oil Cos)	1158	1131	1112	1164	1427	1412	1409	1734	1399	-336	421
Products & Feedstocks	-176	-123	-116	-201	-524	-334	-427	-344	-524	-180	-493
Gasoil/Diesel	-139	-139	-135	-224	-219	-94	-101	-86	-11	74	63
Gasoline	-75	-24	-35	29	-72	-62	-51	-64	-199	-135	-160
Heavy Fuel Oil	-6	-5	7	-34	-31	-47	-77	-52	-63	-11	-64
LPG	86	98	98	126	55	22	21	22	23	1	-50
Naphtha	-7	-32	-28	-47	-149	-105	-128	-121	-288	-167	-275
Jet & Kerosene	-47	-34	-33	-63	-147	-43	-76	-44	27	70	17
Other	12	14	10	13	39	-6	-16	0	-13	-13	-23
Total	1769	1804	1849	1681	1692	1853	1804	2184	1845	-339	56

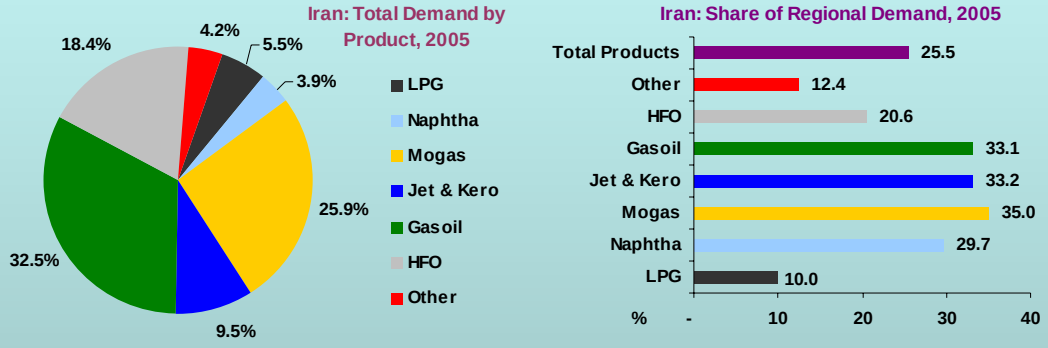
* Preliminary
Sources: Indian Ministry of Commerce, Indian Port Authorities and IEA estimates.

As we noted in last month's report, there is much talk in the **FSU** about the recent switch to fuel oil and away from natural gas by major utilities such as UES. In the early summer Gazprom told the largest Russian utility to rein in gas consumption, and both companies agreed to reduce gas deliveries to 2004 levels. These 'saved' volumes – approximately 4.5 billion cubic meters (bcm) out of UES's total annual consumption of 143 bcm (2005) – will be instead exported.

Distorted Prices and Fuel Demand: The Case of Iran

Most economists would concur that when oil product prices are artificially low demand tends to be too strong, often encouraging waste and deterring improvements in energy efficiency. In this respect, the case of Iran is paradigmatic. The country features probably the cheapest retail gasoline prices in the world, at about 9 cents per litre (diesel is even cheaper). Demand is estimated to grow at around 10% annually, requiring imports to meet almost half of its 400 kb/d consumption, at a cost of some $6 billion at current prices.

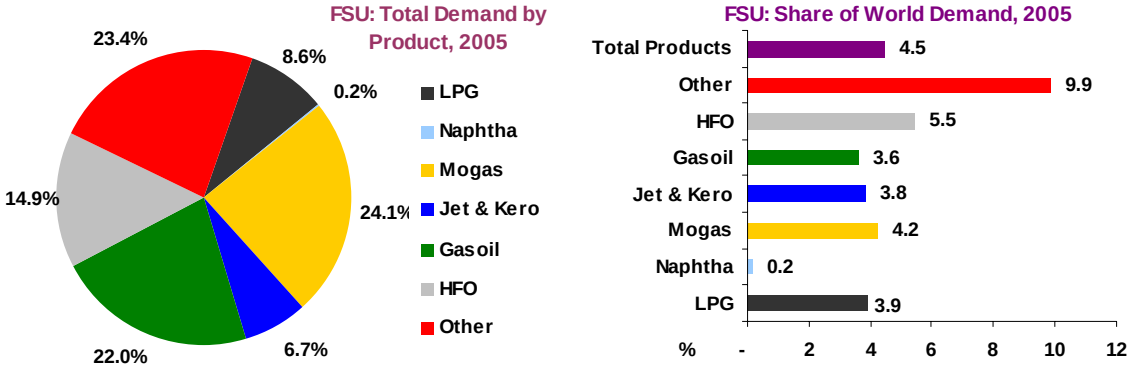
However, the government estimates that about 5% of apparent gasoline demand is actually smuggled out to neighbouring countries (Iraq, UAE, Turkey, Pakistan and Afghanistan) where prices are much higher (for example, prices in Iraq currently stand above $1/litre) – that is, a loss of roughly 10% of imports or $600 million per year. Moreover, as much as 250,000 litres per day are spilled in filling stations. In 2005, gasoline represented a quarter of Iranian oil product demand and about a third of total Middle East gasoline consumption. In addition to low prices, demand has been boosted by the increasing number of cars produced mainly by state-owned companies (Iran's vehicle fleet is currently estimated at some 15 million units).



The shortage of gasoline production and lack of refining capacity have become a very sensitive issue. On the one hand, rationing gasoline, either by stopping imports, issuing coupons or increasing prices, would be politically unpalatable and certainly inflationary, given that the Iranian economy is largely dependent upon road transportation. On the other, maintaining subsidies is becoming onerous for the state. A third possibility, building new refineries, would take both time and money (at least five years and several billion dollars), and is therefore not viable in the short-term, and unless prices were liberalised, it would also further add to demand. Finally, converting vehicles to run on cheaper compressed natural gas (CNG costs 3 cents per litre equivalent) would also be a lengthy way of curbing gasoline consumption – the government's target is to reduce demand by 30% – and has a high retrofit cost

In July, the oil minister announced smart-card rationing, coupled with phased price increases over five years, the launch of an ambitious refinery upgrade and a programme to accelerate the adoption of CNG. These measures would be gradually implemented starting by-end September, since the import budget of state-owned oil marketer NIORDC (National Iranian Oil Refining and Distribution Company) was expected to run out of funds by then. Most likely, the Majlis (parliament) will release funds for continuing importing gasoline at least until March 2007 (the end of the Iranian fiscal year) while attempting to implement a few rationing measures. Ironically, any form of rationing is likely to lead to a black market for gasoline that would provide a better reflection of the supply and demand balance. However, with parliament debating a bill for an additional $3.5-4 billion funding, alongside the introduction of smart cards (scheduled for February 2007), it would seem that any move towards liberalised gasoline prices is still some way off.

Nevertheless, although they represent a minor share of Gazprom's total output, these gas volumes are having a much larger impact in the country's fuel oil market (estimated at almost 15% of total oil product demand in 2005). In terms of calorific content, 4.7 bcm of gas are equivalent to some 3.7 million tonnes of fuel oil – almost 8% of Russia's total production of 50 million tonnes in 2005 or close to 10% of fuel oil exports (31 million tonnes). Given strong domestic demand (largely driven by UES's purchases over the past two months and by sugar refineries), fuel oil exports will likely continue to fall in the months ahead, while domestic prices are likely to remain high (they jumped by almost 6% from July to August to $240/tonne, instead of falling as they typically do during the summer).

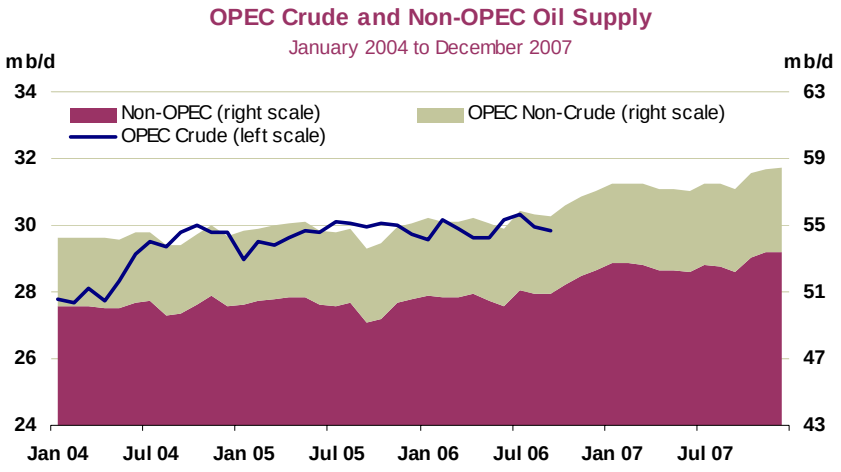


More generally, encouraging fuel oil and coal use is apparently a government policy to discourage consumption of heavily subsidized natural gas, which is obviously much more profitable to export to western markets given very low domestic prices. The president's chief of staff recently argued that building coal power plants would allow domestic savings of 27 bcm by 2015. Thus, fuel oil and coal demand – and domestic prices – will likely keep on increasing, driven by Russia's strong economic growth, and could even result in much higher electricity prices.

SUPPLY

Summary

- **World oil supply** declined by 180 kb/d in September to 85.4 mb/d. Adjustments to non-OECD output in August also pulled down that month's production estimate by over 200 kb/d to 85.6 mb/d. Developments in September were driven by lower OPEC crude supply (off by 155 kb/d) and by a 185 kb/d decline across North America. Higher month-on-month supply from Latin America and Africa in September provided a partial offset.
- A yearly comparison shows **September global output some 1.8 mb/d above hurricane-affected 2005 levels.** Accordingly, OECD supply stood 0.9 mb/d higher, but non-OECD supply has also remained strong, and is up by 0.8 mb/d on last September. OPEC oil supply has followed a flatter trend, with crude marginally down on a year ago but OPEC NGLs up slightly.
- **Non-OPEC supply** for 2006 is held largely unchanged at 51.0 mb/d, although downward adjustments to non-OECD production run through the forecast to 2007. However, their impact is initially blunted by upward adjustments to OECD supply between now and 1Q07, centred on higher US supply. GOM and Alaskan supply outages have proved less pervasive than assumed previously. Non-OPEC projections for 2007 are cut by 160 kb/d, mainly in the second half of the year. Weaker North American supply and widespread adjustments throughout the non-OECD drag down supply to 52.7 mb/d, this being nonetheless 1.7 mb/d up on 2006. Despite recent focus on slowing FSU growth and non-OECD project slippage, OECD supply recovery will be crucial in determining whether strong 2007 growth potential is realised.
- **OPEC crude supply** for September declined by 155 kb/d to 29.8 mb/d, compared to 30.0 mb/d in August. There were signs of lower supply from Middle East Gulf producers generally, although Iraqi supply nudged higher to 2.05 mb/d. Nigerian supply is also believed to have slipped below 2.2 mb/d, amid signs of resurgent attacks on oil installations and personnel. OPEC effective spare capacity reached just under 2 mb/d, although marketability and pricing issues continue to render some of this as notional at best.
- **OPEC's 11 September meeting** signalled no immediate change in production limits but referred to rising inventories and uncertain economic prospects as potential rationale for output cuts in months to come. Indeed, at writing there are reports of a plan to cut production by 1 mb/d to stall a downward move that has at times taken prices below $60/bbl. However, some market analyses see the likely impact of OPEC production curbs as being less than clear cut, with the potential that resultant increases in spare capacity could generate downside price pressures.
- **The 'call on OPEC crude and stock change'** is trimmed by 0.2 mb/d for 3Q 2006 to 28.5 mb/d on weaker late-summer OECD demand. The call stands unchanged at 29.5 mb/d this quarter (versus September OPEC supply of 29.8 mb/d) but is revised up by 0.1-0.2 mb/d in the second half of 2007 when weaker non-OPEC supply outstrips marginally lower North American demand. In all, the 2007 call dips to 28.5 mb/d (29 mb/d in the winter quarters) which is 0.4 mb/d below this year's average. The normal caveats around winter demand and unscheduled outages to non-OPEC supply apply.



All world oil supply figures for September discussed in this report are IEA estimates. Estimates for OPEC countries, Alaska, Russia and Kazakhstan 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 for September is estimated at 29.8 mb/d, 155 kb/d lower than in August. The August total was revised down by 65 kb/d compared to last month's report, on indications of lower output from Kuwait and Saudi Arabia. In September, supply from Iran, Nigeria and Saudi Arabia was down by around 100 kb/d each, partly offset by increases of 20-50 kb/d each from Algeria, Iraq, Kuwait, Libya and Venezuela. There were renewed signs in late September and early October of an escalation in ethnic violence impeding Nigerian supply. In Iraq, higher September domestic supply and temporary resumption of Ceyhan export liftings offset lower Basrah exports.

OPEC Crude Production

(million barrels per day)

	1 July 2005 Target	September 2006 Production	Sustainable Production Capacity[1]	Spare Capacity vs Sep 2006 Production	Production vs. Target
Algeria	0.89	1.35	1.39	0.04	0.46
Indonesia	1.45	0.87	0.95	0.09	-0.59
Iran	4.11	3.90	4.00	0.10	-0.21
Kuwait[2]	2.25	2.50	2.60	0.10	0.25
Libya	1.50	1.75	1.75	0.00	0.25
Nigeria	2.31	2.19	2.60	0.42	-0.12
Qatar	0.73	0.82	0.87	0.05	0.09
Saudi Arabia[2]	9.10	9.20	10.80	1.60	0.10
UAE	2.44	2.65	2.70	0.06	0.20
Venezuela[3]	3.22	2.55	2.70	0.15	-0.67
Subtotal	**28.00**	**27.76**	**30.36**	**2.59**	**-0.24**
Iraq		2.05	2.50	0.45	
Total		**29.81**	**32.86**	**3.04**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*1.94)*	

1 Capacity levels can be reached within 30 days and sustained for 90 days

2 Includes half of Neutral Zone Production

3 Includes Orinoco extra-heavy oil assumed at 610 kb/d in September

Production from the OPEC-10 (excluding Iraq) averaged 27.8 mb/d in September, some 200 kb/d below a target of 28.0 mb/d which has been in place since July 2005. While individual quotas have largely been ignored in recent months (see below), aggregate OPEC-10 supply has, more by accident than design, been remarkably consistent and within 300 kb/d of 28.0 mb/d for the entire period. There is growing market speculation however that if OPEC production cuts again become an issue, then the difficult task of quota reallocation may again come to the fore.

OPEC sustainable capacity is assessed at 32.9 mb/d for September, modest increases accruing from Algeria and Libya after recent field build-up. This suggests notional spare capacity of over 3 mb/d, but less than 2 mb/d if Indonesia, Iraq, Nigeria and Venezuela are excluded. As ever, constraints of pricing, refinery processing capability and marketability at times render a more market-sensitive measure of spare capacity at still lower levels. Interestingly, OPEC's President, in the aftermath of the 11 September Vienna meeting, cited levels in excess of 4 mb/d as being likely optimal for effective spare capacity and saw this being attainable in months to come. While wary of citing any such optimal level, this report would nonetheless see potential net OPEC crude capacity additions of some 900 kb/d over the next 15 months as suggesting some easing from the currently exceptionally tight situation. Much will depend on whether OPEC producers (and for that matter their non-OPEC counterparts) follow through on schedule with plans for increased investment and capacity.

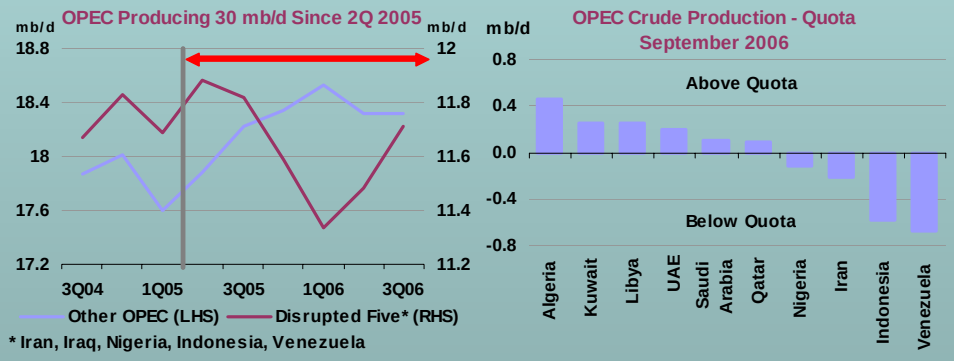
Between a Rock and a Hard Place

Oil markets currently resound with renewed talk of OPEC production cuts and potential reallocation of quotas. OPEC's 11 September Vienna meeting saw no change in output targets but flagged potential future production cuts in light of rising inventories. The Organisation sees commercial stocks now more than adequate to offset concerns over potential supply disruptions or geopolitical risks. Although this appears to ignores the short term nature of a supply cushion entirely reliant upon inventory as opposed to spare capacity, this was followed at the end of September by Nigerian and Venezuelan plans to enact unilateral supply cuts of some 150 kb/d from 1 October to stem declining prices. Now, market reports suggest OPEC is close to formalising a 1.0 mb/d production cut, possibly at an extraordinary meeting rescheduled ahead of the original 14 December date in Abuja, Nigeria.

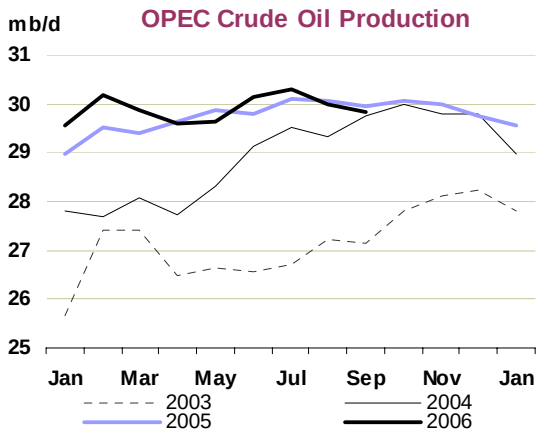
So what has happened recently to cement an apparent consensus among otherwise divergent OPEC delegation viewpoints on price and supply? Or are the latest rumours merely that, aimed at placing a floor under prices, thereby obviating the need to do very much at all? Certainly, implicit cuts so far from Saudi Arabia, the UAE and Kuwait - by way of pricing policies for heavier crudes grades - have done little to curb falling prices, which in turn have been driven by gasoline supply issues. Nor have involuntary cuts from Nigeria, Iran and Iraq had a noticeable impact. OPEC production fell by 300 kb/d in April, and is down by 500 kb/d since July, but a 25% price slide since early August seems now to be prompting a more proactive response.

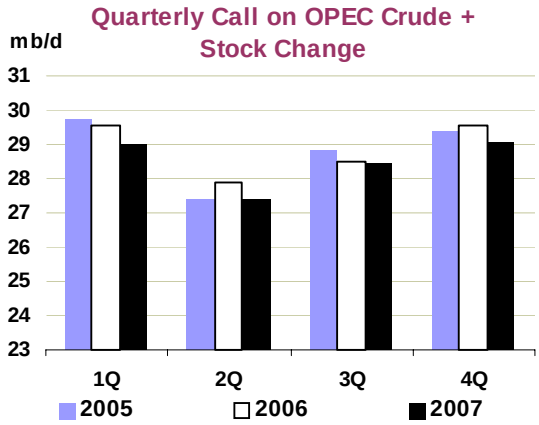
In some senses, OPEC is in a bind. Downside economic risks do exist, but geopolitical risks are recurrent, as recent events in Iraq and Nigeria show. The US hurricane season, while past its peak, still has some six weeks to run and colder winter weather approaches. Key Gulf producers, concerned that prices above $60/bbl impede economic growth and undermine demand, are reluctant to enact production cuts which might implicate OPEC as a driver of economic downturn.

The counter argument is that failing to cut production now risks requiring more extensive supply adjustments later on, perhaps too late to avoid still weaker prices. In this context the apparent emergence of a $55/bbl-$60/bbl floor for prices may be a revenue-driven line in the sand for OPEC's more hawkish members. Claims by OPEC's President that prices below this undermine upstream investment seem disingenuous on a marginal supply cost basis. Given the divergence between quota overproducers and underproducers (see below), and an allocation mechanism that has remained unchanged since 2000, next year is likely to see some difficult reallocation negotiations. Some reports suggest that Indonesia will now join Iraq in being excused from restraint measures. Saudi Arabia, the UAE and Kuwait may again be left to shoulder the burden of cuts if producers of premium grades such as Algeria, Libya and Nigeria prove less willing to put announced cuts into practice.



Notwithstanding, there is no certainty that OPEC production cuts now will have the intended effect, especially if market focus were to centre on spare capacity rather than absolute OPEC volumes. Inventories are high partly because there is little or no spare capacity. Indeed, to some analysts, OPEC's bottom line sustainable capacity is closer to 30 mb/d than to this report's 33 mb/d, since this is the best they have managed in the past year (see above). That a core of producers has had to make up for erratic output from a 'disrupted five' only helps reinforce the view of zero effective spare capacity. Cutting production now, so the argument runs, may actually push prices lower in the short term as it will finally liberate some genuine spare capacity into the system. In the longer term, a tightening of the prompt crude market might unwind some of the present market contango, reducing demand for stocks. Much depends on the path of autumn demand, non-OPEC supply recovery and inventories. But for now, OPEC may indeed be confronting a *Catch 22* situation.





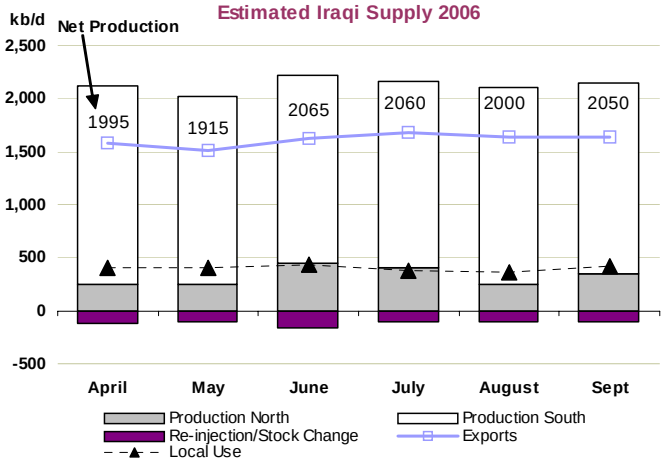
Iran curbed September supply by around 100 kb/d to 3.9 mb/d based on initial indications for tanker sailings and domestic refinery use. This was despite reports that it has overcome earlier resistance to sales of heavy/sour production from the offshore Soroush and Nowruz fields. Output here was reported to have risen to some 150 kb/d out of nameplate capacity of 190 kb/d.

However, renewed question marks have emerged over Iran's total operational capacity, with the oil minister admitting that Iran is grappling with oilfield decline amounting to an annual 500 kb/d. Official capacity targets for 2010 have been lowered from 5.0 mb/d to 4.66 mb/d and progress on the key 260 kb/d Azadegan project is stalled as Japan's Inpex has relinquished operatorship and reduced its stake from 75% to 10%. Success in raising capacity from current levels (this report sees 4.0 mb/d as against government claims of 4.2 mb/d) depends on progress in diffusing the current foreign investment hiatus. This in turn hinges on the outcome of the current nuclear issue standoff, and on reform of upstream terms. For the upcoming third bidding round, Iran no longer requires full up-front financial commitment for new projects, allowing expenditure to be spread over exploration and development phases.

Saudi Arabia too was seen trimming supply in September from a downward adjusted August level of 9.3 mb/d to 9.2 mb/d. Relatively robust pricing for heavier grades sold into the Atlantic Basin has been seen by some traders and analysts as further evidence of the general downward trend in Saudi supply. Up to now, so the analytical argument runs, the Kingdom has preferred this low-key approach to supply adjustment to a higher profile cutting of contract volumes which might have an exaggerated impact on crude prices generally.

Saudi Aramco announced at the end of September that it expected development work at the offshore Manifa field to begin in first quarter 2007, with initial output targeted for mid-2011. The project, which will generate 900 kb/d of Arab Heavy crude, 120 mmcf/d of gas and 50 kb/d of condensate, was excluded from the IEA's *Medium-Term Oil Market Report (MTOMR)* projections due to uncertainty as to whether Saudi Arabia might defer work on this second generation expansion project against a back-drop of potentially slowing oil demand growth. It now appears that plans to harness both Manifa's natural gas and heavy crude, for processing in new domestic refineries, are proceeding apace.

Iraqi crude supply appears to have hit something of a glass ceiling at or slightly above 2.0 mb/d (see right). September saw mixed performance, although total supply nudged higher from 2.0 mb/d to 2.05 mb/d. Domestic crude use rose from very low August levels to around 415 kb/d, although refinery utilisation rates still average barely 50%. Tacit acknowledgement of refinery operational problems came with the government's doubling of the current $213 million per month available for oil products imports.



Around 1.6 mb (or 53 kb/d) of northern Kirkuk crude was shipped from Ceyhan, compared to zero in August, but this was nevertheless well below the initially planned

6 mb. Ongoing attacks on the northern export pipeline kept Ceyhan crude storage at minimal levels, with currently only some 300 kb in tank versus capacity of some 8 mb. Southern exports actually slipped from August levels on weather related loading delays and averaged 1.57 mb/d, giving a total September Iraqi export level of 1.64 mb/d. Early October has seen ongoing northern pipeline problems and low Ceyhan storage, signs of renewed weather difficulties at Basrah and the continued non-availability of the neighbouring port of Khor al-Amaya. All in all, Iraqi supply looks unlikely to rise substantially this month, making an end-2006 Oil Ministry target of 3 mb/d production appear remote.

Nigerian September supply is assessed at 2.19 mb/d, some 85 kb/d below August. Earlier outages affecting ENI's Brass River facilities and maintenance at the offshore Antan field underpinned some of the fall. An early September oil workers' strike was called off before making any substantial impact on exports after government commitments to improve Niger Delta security. Earlier-shuttered Brass River and Bonny production was also reinstated during early September. Nonetheless, some 600 kb/d of clearly identifiable production remains shut-in due to unrest in the Niger Delta, broken out as follows:

- Shell, with 365 kb/d of Forcados, plus 110 kb/d of EA production in the western delta;
- Eastern Delta production from Shell, which in early October stood at some 27 kb/d following latest attacks on Cawthorne Channel installations;
- Around 70 kb/d of Chevron production which has been shut-in since 2003;
- Sporadic attacks on ENI's Brass River facilities, which during August and September at times closed 50 kb/d of output (though this has now been restored).

Interestingly, Nigerian government sources have cited levels well above 800 kb/d being shut-in. Superficially, this seems high and is difficult to justify based on operating company reports of shuttered output. It might also be regarded as pre-positioning by Nigeria ahead of any future OPEC quota renegotiation, suggesting that Nigeria's real capacity, absent temporary security-related outages, is around 3 mb/d (current 2.2 mb/d production plus 0.8 mb/d shut-in). However, while this report persists for now with observed outages being nearer 600 kb/d, a sharp decline in apparent September export liftings and Nigeria's unilateral late-September decision to cut October export allocations by 5%, may suggest more deep-rooted upstream problems than have been so far verified. Either way, neither government nor operating companies expect substantial reinstatement of shuttered production in the immediate future.

Venezuelan crude supply nudged higher in September, this report's estimate rising 25 kb/d from August to reach 2.55 mb/d. This resulted from ongoing recovery in output after earlier maintenance at the Hamaca heavy oil upgrader facility, but a combination of declining heavy conventional crude output and strike action at the Petrozuata upgrader limited the rise.

The Venezuelan government confirmed that it aims to take over a majority equity stake in the four, currently minority interest, upgrader projects which account for over 600 kb/d of current Venezuelan supply. Joint venture partner Total meanwhile announced that plans to expand the 180 kb/d Sincor upgrader project are on hold, pending resolution of ongoing discussions with Venezuelan authorities over fiscal and ownership changes.

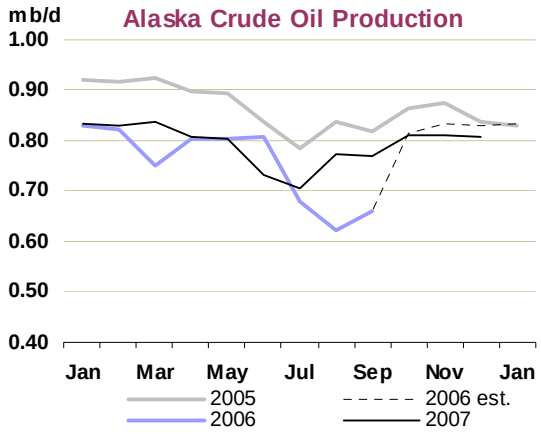
In a separate but related development, Venezuela announced that it will discontinue production of Orimulsion boiler fuel at the end of 2006 (see report dated 12 May 2006). Long standing questions over Orimulsion's economic viability (priced as a coal substitute) seem to have been the prime rationale. Freed-up Orinoco ultra-heavy oil volumes will now reportedly be used to augment declining production of conventional 16° API Merey crude which obtains better returns. Production from a newly inaugurated Sino-Venezuelan joint venture Orimulsion plant has reportedly been cut to 40 kb/d and will cease entirely at the end of the year. This move has the effect of cutting this report's estimate for 2007 OPEC NGL/non-conventional supply by 110 kb/d although, as noted above, much of this oil will likely find its way back into the market in the form of conventional Venezuelan crude supply.

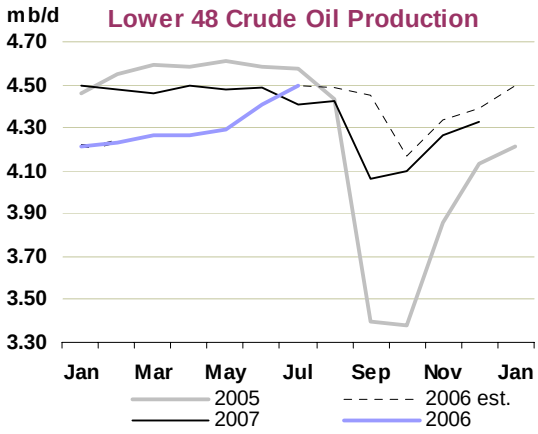
OECD

North America

US – Alaska September actual, others estimated: Previous downward revisions made to US supply projections after last year's intense hurricane activity and this summer's Alaskan pipeline closures now appear to have been overly pessimistic. Preliminary indications for US crude supply for July and August show supply close to last month's estimates, but weekly data suggest a September crude level of some 5.1 mb/d, 265 kb/d higher than our earlier forecast. In all, US oil supply is revised up by over

100-150 kb/d for 3Q06 through 1Q07, before downward adjustments for US Gulf (GOM) supply feed through to curb 2007 supply overall by 60 kb/d. US production now averages 7.32 mb/d in 2006 and 7.4 mb/d in 2007 (with crude oil at 5.11 mb/d in 2006 and 5.17 mb/d in 2007). However, an initial look at US final monthly data for 2005 (only available since this report's own data were frozen) suggests that some of this month's downward adjustment to 2007 may be reversed in due course.

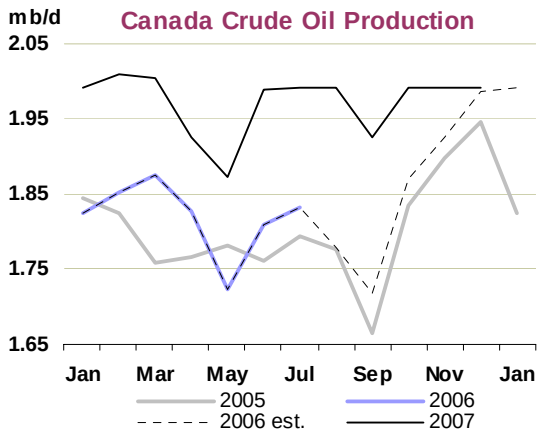


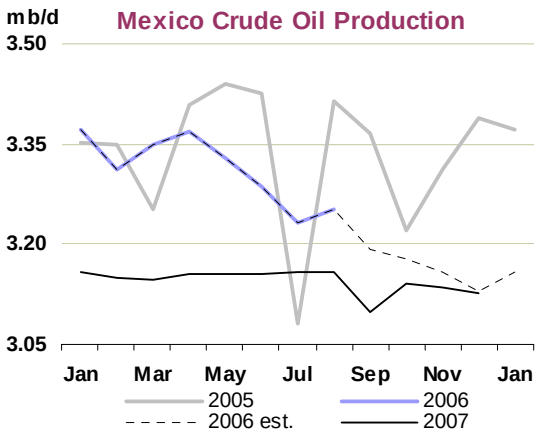


Alaska underpins most of the upward revision through 1Q07, with output from the Prudhoe Bay field back at 355 kb/d in early October and reportedly scheduled to regain 400 kb/d by the end of October. This follows BP's successful bypass of stricken crude transit pipelines and diversion of Prudhoe crude via neighbouring Endicott and Lisburne field facilities. Ongoing pipeline work at the Prudhoe Bay, Lisburne, Alpine and Milne Point fields is likely to continue through the winter and into next summer, curtailing mid-2007 Alaskan supply by 25 kb/d compared to last month's forecast. However, upward adjustments of over 100 kb/d to Prudhoe Bay supply for the next six months outstrip this, leaving an Alaskan crude forecast revised up by 35 kb/d in 2006, to 770 kb/d, and by 15 kb/d in 2007, to 795 kb/d.

GOM supply projections are revised up for the short term, but have been revised down for 2007. September US supply data indicate GOM production of around 1.48 mb/d, 275 kb/d higher than estimated last month. This follows minimal September hurricane activity, negating what had previously been a 385 kb/d downward adjustment to GOM supply in line with the five year average trend. With expectations also for minimal hurricane activity through to the end of the season in November, assumed seasonal outages (currently 385 kb/d in October and 200 kb/d in November) are also prone to later downward adjustment. That notwithstanding, GOM supply for 2007 has been revised down by 80 kb/d, largely to account for BP's announcement that subsea manifold problems on the Thunder Horse project will defer start-up to mid-2008 at the earliest. However the impact is markedly less than suggested by headline 250 kb/d Thunder Horse capacity, since this report was previously counting on a net 2007 contribution of only 75 kb/d from Thunder Horse.

Canada – July actual: Canadian oil supply is again revised down, this time by some 20 kb/d for both 2006 and 2007, with adjustments centred on the second half of the year in both cases. Higher-than-expected synthetic crude output in August initially offsets lower offshore Newfoundland supply. Weaker east coast offshore supply is likely to carry into September when maintenance curbs output markedly. Going forward however, the situation reverses, and Syncrude Canada's output has been



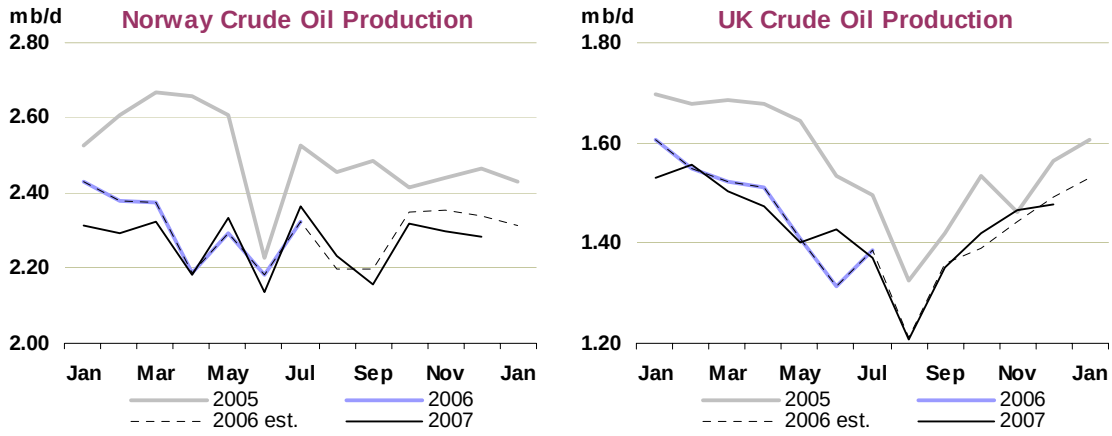


revised down by 20-30 kb/d in light of now lower production targets for this year and next. Despite this, the Canadian oilsands remain the driver of likely Canadian supply growth, which averages close to 150 kb/d in both 2006 and 2007.

Mexico – August actual: Stronger-than-expected August production of both crude (3.25 mb/d) and NGL (445 kb/d) add some 15 kb/d to total Mexican output for the forecast period. Exports of heavy Maya crude, notably to the Americas, also rebounded in July. However, the output projections remain in line with the generally weaker profile adopted in last month's report. Crude supply falls to 3.26 mb/d in 2006 from 3.33 mb/d in 2005 and further to 3.15 mb/d in 2007. NGL supply is seen stabilising at just under 450 kb/d. Declining production of 12-15% from the Cantarell field in 2007 is partly offset by new field developments, including increased supply at the Ku-Maloob-Zaap complex.

North Sea

Norway – July actual, August provisional: Final field data for July confirm that month's rebound in total oil supply to 2.87 mb/d (2.32 mb/d of crude and 550 kb/d of gas liquids) while provisional indications show a maintenance-induced dip to some 2.75 mb/d in August and September. Despite evidence of increased activity in the Norwegian offshore sector, including sharply higher exploration spending for 2006 and 2007, forecast output in this report has been trimmed by 15-20 kb/d for the period through 1Q07. This follows reports by key operators Statoil and Norsk Hydro of lower expectations for short-term production growth. Notably, plateau volumes of 75 kb/d from the Kristin project have been pushed back to 1Q07 and start-up of the 11 kb/d Gulltop satellite of the Gullfaks field is deferred until 2Q07.



UK – July actual: Forecast UK offshore crude production remains largely unchanged at 1.43 mb/d for both 2006 and 2007, although evidence of higher-than-expected August maintenance activity trims third quarter output by some 25 kb/d in both years. This is offset by marginally higher output in intervening quarters. June field-by-field data point to slightly higher than expected Brent and Ninian system supply, but weaker Forties production. These minor adjustments to baseload supply carry through the forecast.

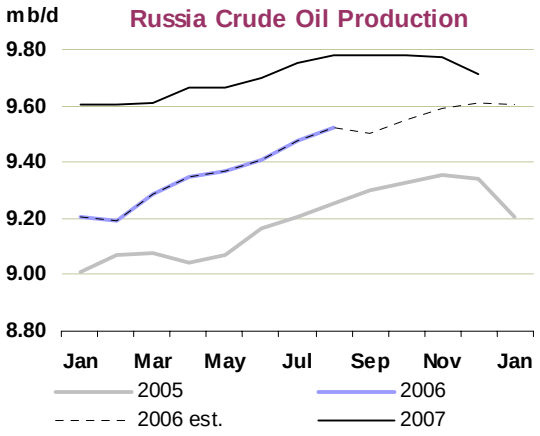
Early September saw threats that some 800 diving personnel may take industrial action in November in the absence of an improved pay offer from employers. The move risks undermining repair capability in the event of oil and gas field outages.

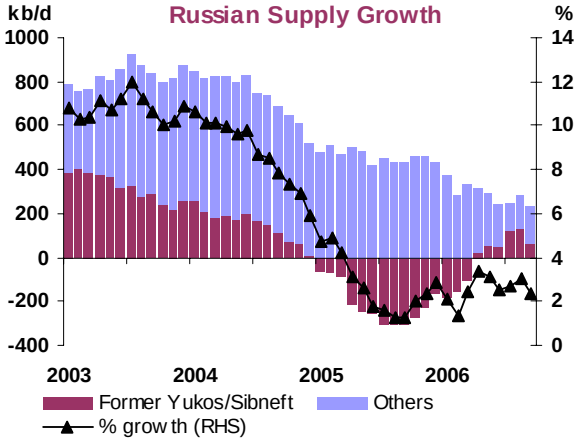
Former Soviet Union (FSU)

Russia – August actual, September provisional: Against a backdrop of continuing uncertainty over the eventual fate of three key Production Sharing Agreements (PSAs) involving Shell, ExxonMobil and Total, the Russian production forecast is held largely unchanged at 9.7 mb/d for 2006 and 10.0 mb/d for 2007 (including some 300 kb/d of condensate and gas liquids). Growth averages 2.6% in 2006 and 2.9% in 2007, after attaining 2.7% in 2005. August final data came in some 25 kb/d higher-than-expected, but September supply levelled off. 4Q 2006 supply has been trimmed by 25 kb/d to reflect expectations of lower BP-TNK supply and delays in build-up from ExxonMobil's Sakhalin 1 project. However, stronger performance from Rosneft helps offset these downside adjustments.

The Russian authorities have denied that they are seeking to squeeze out foreign involvement in the three PSA projects, which in August saw a seasonal rise in output to 145 kb/d. Government sources

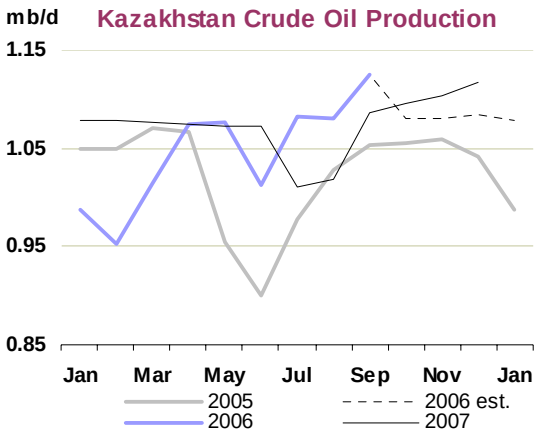
suggest that they are seeking to preserve state revenues in the face of sizeable cost over-runs at the projects. However, the raft of regulatory and environmental hurdles being laid ahead of full project output from each of the schemes only seems likely to further impede revenue flows for all concerned. Recent announcements concerning delayed output schedules for Sakhalin 1 and Sakhalin 2 however do not materially affect this report's projections since we were already assuming fairly conservative production profiles to take account of project uncertainty. Nonetheless, any further material project dislocation places at risk the expected build in supply from these projects to some 325 kb/d next summer and 400 kb/d by the end of 2008.

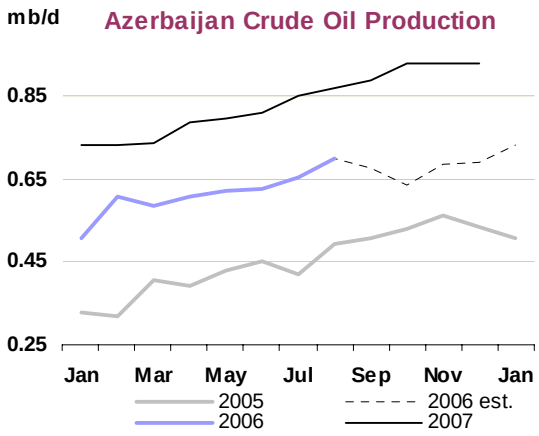




August net FSU exports reached 8.41 mb/d, with a 70 kb/d increase in products shipments outstripping a 60 kb/d dip in crude. Overall, exports stand some 600 kb/d above levels of a year ago. Sharply lower products exports in September are likely to have dragged down overall exports, despite what would normally be the impetus provided by increases in export duties from 1 October (changes in Russian export duties for crude and products have now been harmonized to the same date, with current record levels equivalent to some $238/tonne for crude, $172/tonne for gasoline and diesel and $93/tonne for fuel oil). September crude volumes were also affected by lower CPC liftings. This month's crude exports may remain close to lower September volumes, based on Transneft schedules (which show markedly lower Baltic Pipeline System deliveries) and likely lower BTC pipeline movements.

Ongoing checks by Russian authorities at the newly-started De Kastri terminal suggest a slower than originally anticipated build in exports of Sokol crude from the Sakhalin project. So far two cargoes have been scheduled for October lifting and three in November. Operator ExxonMobil had originally planned to attain nameplate 250 kb/d production capacity by end-2006, which is indicative of up to ten cargoes. This report has for some time assumed a slower build in supply, capacity output and exports being deferred until 2007/2008.





Kazakhstan – September actual: Recent production data suggest heavier underlying maintenance activity for the key Tengiz and Karachaganak fields. A maintenance-related adjustment nets 10 kb/d off 2006 supply, and 20 kb/d from the 2007 projection. Total oil production averages close to 1.3 mb/d for both years. Looking further ahead, the Energy Ministry in early September predicted a 36% increase in crude and condensate production during the 2005-2010 period. Central to this plan is the development of the Kashagan field in the Caspian Sea, where project complexity has contributed to a 50% increase in investment costs for the initial, 450 kb/d production phase. July's *MTOMR* assumed a fairly conservative production schedule, with Kashagan only coming onstream in 2010, thereby limiting Kazakhstan total oil production to 1.6 mb/d in 2010. This represents a 25% increase on 2005 levels, a less ambitious target than latest Kazakh government plans.

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

	2004	2005	3Q2005	4Q2005	1Q2006	2Q2006	Jun 06	Jul 06	Aug 06	Latest month vs. Jul 06	Latest month vs. Aug 05
Crude											
Black Sea	2.20	2.27	2.30	2.23	2.25	2.26	2.16	2.29	2.36	0.07	0.04
Baltic	1.51	1.59	1.57	1.55	1.54	1.73	1.79	1.59	1.42	-0.17	-0.17
Arctic/FarEast	0.25	0.19	0.22	0.17	0.10	0.11	0.12	0.17	0.24	0.07	0.03
BTC	0.00	0.00	0.00	0.00	0.00	0.01	0.03	0.18	0.27	0.09	0.27
Crude Seaborne	3.96	4.05	4.08	3.95	3.89	4.11	4.11	4.24	4.29	0.05	0.16
Druzhba Pipeline	1.10	1.15	1.14	1.23	1.20	1.16	1.20	1.29	1.17	-0.12	0.05
Other Routes	0.23	0.25	0.24	0.26	0.31	0.38	0.42	0.36	0.37	0.01	0.12
Total Crude Exports	5.29	5.45	5.46	5.44	5.39	5.65	5.73	5.89	5.83	-0.06	0.34
Of Which: Transneft	3.76	4.04	4.02	4.07	4.05	4.23	4.25	4.26	4.11	-0.15	0.01
Products											
Fuel oil	0.90	0.93	1.02	1.04	0.87	1.05	0.97	0.94	0.99	0.05	0.02
Gasoil	0.84	0.87	0.85	0.95	1.01	0.95	0.92	0.91	0.95	0.05	0.13
Other Products	0.46	0.58	0.58	0.60	0.60	0.70	0.67	0.70	0.66	-0.04	0.12
Total Product	2.19	2.38	2.45	2.58	2.47	2.69	2.56	2.54	2.61	0.06	0.27
Total Exports	7.48	7.83	7.91	8.02	7.87	8.34	8.29	8.43	8.44	0.01	0.61
Imports	0.01	0.02	0.02	0.02	0.03	0.03	0.03	0.05	0.03	-0.02	0.00
Net Exports	7.47	7.81	7.89	8.00	7.84	8.31	8.26	8.38	8.41	0.03	0.61

Sources: Petro-Logistics, IEA estimates
Note: Transneft data has been revised to exclude Russian CPC volumes.

Azerbaijan – August actual: August production of Azeri Light crude by the AIOC consortium came in some 40 kb/d higher than expected, although the impact of this on 2006 supply is negated by inclusion in our forecast of a similar magnitude downturn in October. The Chirag field will undergo maintenance this month to install water injection equipment. Flows of Azeri Light via the BTC pipeline reportedly dropped by some 65 kb/d to 220 kb/d in September and will likely remain below 250 kb/d in October, partly as a result of the Chirag work. Nonetheless, AIOC production drives the near 200 kb/d annual increases in Azeri supply expected for both 2006 and 2007. Production averages 640 kb/d this year and 840 kb/d next year, with a modest increment also deriving from start-up of liquids supply at the Shah Deniz gas project, due onstream at end-September 2006.

Other Non-OPEC

Revisions to Other Non-OPEC Estimates

In all, non-OPEC supply is revised down by 30 kb/d for 2006 to 51.0 mb/d and by 160 kb/d in 2007 to 52.7 mb/d. Lower-than-expected offshore supply from both **China** and **India** cut forecast production by 20-25 kb/d each. Included in the Indian adjustment is a lower expectation for NGL supply, in part following August/September outages at the Hazira gas processing plant.

In the Middle East, **Syrian** supply has been revised down by 15 kb/d for 2006 and by 35 kb/d in 2007 to account for apparently steeper decline rates. Annual oil output including NGL now comes in at 415 kb/d in 2006 and 380 kb/d in 2007, compared to 460 kb/d in 2005. Recent reports on mid-year production from Chad and Sudan also suggest lower than expected output. An earlier standoff between the government in **Chad** and operators Chevron and Petronas over unpaid taxes seems to have receded, but production is reported below earlier levels of 170 kb/d and some 15 kb/d has been cut from forecast production. In **Sudan** earlier optimism about production continuing to push higher beyond 500 kb/d has been replaced by concerns about decline from early production at blocks 1, 2 and 4. Some 20 kb/d has been trimmed from 2007 Sudanese supply, leaving production at 570 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	2007	06 v 05	07 v 06	2005	2006	2007	06 v 05	07 v 06	2005	2006	2007	06 v 05	07 v 06
North America	14.09	14.16	14.41	0.07	0.25	14.09	14.21	14.35	0.12	0.13	0.00	0.05	-0.06	0.05	-0.12
Europe	5.60	5.32	5.35	-0.28	0.03	5.60	5.30	5.35	-0.30	0.05	0.00	-0.02	0.00	-0.02	0.02
Pacific	0.58	0.55	0.64	-0.04	0.09	0.58	0.56	0.65	-0.02	0.09	0.00	0.01	0.01	0.01	0.00
Total OECD	**20.28**	**20.03**	**20.40**	**-0.25**	**0.37**	**20.28**	**20.08**	**20.35**	**-0.20**	**0.27**	**0.00**	**0.05**	**-0.05**	**0.05**	**-0.09**
Former USSR	11.64	12.08	12.62	0.45	0.53	11.64	12.07	12.60	0.43	0.53	0.00	-0.02	-0.02	-0.02	0.00
Europe	0.16	0.15	0.13	-0.01	-0.01	0.16	0.15	0.13	-0.01	-0.01	0.00	0.00	0.00	0.00	0.00
China	3.62	3.71	3.75	0.09	0.04	3.62	3.70	3.73	0.08	0.02	0.00	-0.01	-0.02	-0.01	-0.01
Other Asia	2.68	2.73	2.76	0.04	0.04	2.68	2.70	2.73	0.02	0.03	0.00	-0.02	-0.03	-0.02	-0.01
Latin America	4.30	4.48	4.71	0.18	0.23	4.30	4.48	4.74	0.18	0.26	0.00	0.00	0.03	0.00	0.03
Middle East	1.86	1.76	1.72	-0.10	-0.04	1.86	1.75	1.69	-0.12	-0.06	0.00	-0.02	-0.03	-0.02	-0.02
Africa	3.72	4.04	4.57	0.33	0.53	3.72	4.03	4.53	0.32	0.50	0.00	-0.01	-0.04	-0.01	-0.03
Total Non-OECD	**27.97**	**28.95**	**30.26**	**0.98**	**1.31**	**27.97**	**28.87**	**30.15**	**0.90**	**1.27**	**0.00**	**-0.08**	**-0.11**	**-0.08**	**-0.03**
Processing Gains	1.86	1.90	1.92	0.04	0.02	1.86	1.90	1.92	0.04	0.02	0.00	0.00	0.00	0.00	0.00
Other Biofuels	0.12	0.15	0.26	0.04	0.11	0.12	0.15	0.26	0.04	0.11	0.00	0.00	0.00	0.00	0.00
Total Non-OPEC	**50.23**	**51.04**	**52.84**	**0.81**	**1.80**	**50.23**	**51.00**	**52.68**	**0.77**	**1.67**	**0.00**	**-0.03**	**-0.16**	**-0.03**	**-0.13**

OMR = Oil Market Report

Bucking the trend in other non-OECD regions, supply for Latin America is revised up for the forecast period. Offshore production outside of the Campos Basin in **Brazil** is trending higher than anticipated and adds marginally to expected 2007 output. The incorporation of two-to-three months of recently available data for **Argentina**, **Colombia**, **Peru** and **Trinidad** pushes forecast regional supply for 4Q 2006 onwards up by a combined 30 kb/d.

OECD STOCKS

Summary

- **Total OECD oil inventories** built by 22 mb in August as declining crude stocks were largely offset by increasing product and 'other oils' inventories. Crude stocks fell in all regions following increased refinery throughput as scheduled maintenance reached a seasonal low. Product inventories built with increases in distillates and 'other products' stocks in North America and the Pacific accounting for most of the change. Days of forward demand cover came to 55 days for the OECD as a whole, on par with July and one day higher than last year.

Preliminary Industry Stock Change in August 2006 and Second Quarter 2006

(million barrels per day)

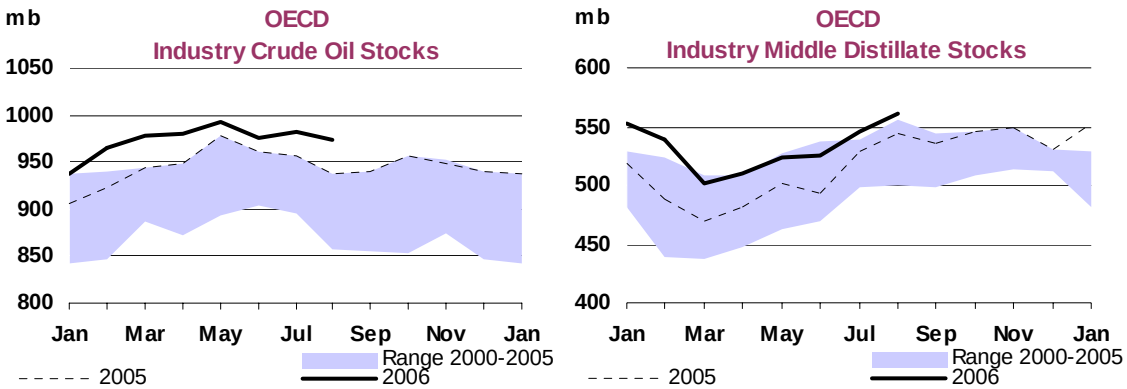
	August (preliminary)				*Second Quarter 2006*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**-0.19**	**-0.04**	**-0.10**	**-0.33**	**-0.07**	**-0.08**	**0.11**	**-0.04**
Gasoline	-0.08	-0.01	0.01	-0.07	-0.01	-0.12	0.00	-0.12
Distillates	0.29	-0.03	0.20	0.46	0.06	0.09	0.10	0.26
Residual Fuel Oil	0.01	-0.06	0.00	-0.06	0.02	0.06	0.04	0.13
Other Products	0.20	-0.02	0.18	0.36	0.30	-0.01	0.02	0.31
Total Products	**0.42**	**-0.12**	**0.39**	**0.70**	**0.37**	**0.03**	**0.17**	**0.57**
Other Oils[1]	0.05	-0.03	0.31	0.33	0.08	-0.02	0.02	0.08
Total Oil	**0.28**	**-0.18**	**0.60**	**0.70**	**0.38**	**-0.07**	**0.30**	**0.61**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons

- **OECD industry crude oil stocks** fell by 10 mb in August to 973 mb or 35 mb higher than last year. Stocks fell in all regions, although the main changes were seen in North America and in Japan where higher refinery throughput increased crude demand. In Europe, lower Italian, German and UK stocks were mostly offset by increases in 'other EU' and Norwegian inventories.

- **OECD industry middle distillate stocks** built by 14 mb in August as Japanese and US refiners cranked up throughput to build stocks ahead of the winter heating season. Although higher than last year and their five-year average in volumetric terms, OECD distillate stocks were trending in the middle of their range in terms of forward demand cover. Weekly data from the US and Japan show distillates continued to rise in September, while stocks in independent storage in ARA and Singapore fell from recent highs following increased demand and reduced runs.

- **OECD industry gasoline stocks** trended generally sideways in August as increased refinery output was offset by continued robust driving demand. With Labor Day marking the end to the US driving season in early September, the hurricane season largely over and total OECD gasoline stocks at 7 mb above last year's level, earlier concerns over the adequacy of supplies have mostly dissipated - but much will depend on the extent of seasonal maintenance. Preliminary weekly data for US and Japanese inventories moved higher in September.



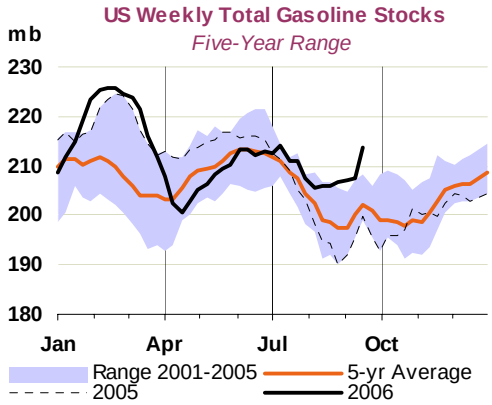
OECD Industry Stock Changes in August 2006

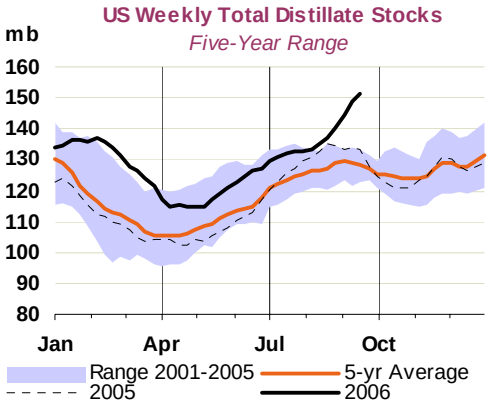
OECD North America

North American crude oil stocks fell by 6 mb in August as both US and Mexican inventories moved lower. US crude stocks fell by only 2.5 mb in August despite the partial shutdown of the 400 kb/d Prudhoe Bay oil field as higher production in the US Gulf of Mexico and continued strong imports offset the outage.

In September, US-50 crude stocks moved slightly lower as continued high throughput were mostly countered by strong imports. Total US crude imports averaged 10.7 mb/d for the four weeks ending 29 September, more than 250 kb/d higher than the previous four weeks and 1.5 mb/d higher than the hurricane-reduced levels of last year. In the last week of September, the downward trend in crude stocks since early June was reversed when US crude runs fell by almost 600 kb/d. The impact on stocks was low, however, as crude oil imports fell by a similar amount.

North American product stocks built by 13 mb in August. The increase was mostly centred in the US, where distillate and 'other product' stocks rose by a combined 14 mb. US gasoline stocks were down by 2 mb despite higher crude runs and continued strong imports, as demand reached its seasonal peak.





In September, US-50 product stocks continued to rise. Preliminary weekly data show that total products built by a combined 24 mb, with increases in all major product categories, following higher refinery runs in the early part of the month and seasonally weaker demand in the pre-winter shoulder period and ahead of seasonal maintenance. Lower gasoline demand, following the end of the US driving season, generally considered the early September Labor Day holiday, allowed total gasoline stocks to build by 8 mb. Stocks of both finished gasoline and blending components increased, despite lower imports.

Total US distillate stocks added close to 12 mb in September as refiners were maximizing output to turn over tanks for new specification material and build heating oil inventories ahead of winter. Ultra-low-sulphur diesel (ULSD), which has to replace 80% of regular on-road diesel by the 15th of October at the retail level, built by 10 mb while regular diesel fell by 2 mb. Heating oil inventories added close to 4 mb, predominantly in the main-consuming Northeast region.

OECD Europe

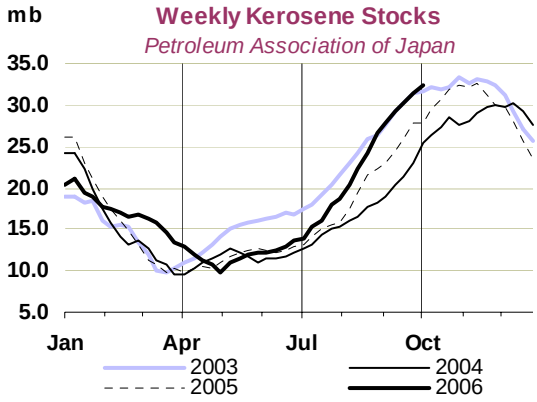
European crude oil inventories trended largely sideways in August as lower Italian, German and UK stocks were offset by increases in 'other EU' and Norwegian inventories. Higher European refinery runs increased crude demand, while North Sea production was again affected by scheduled maintenance. Benchmark BFO volumes were at their lowest level since the three grades were combined to form the North Sea benchmark in July 2002. Competing Nigerian supplies were also lower due to continued outages in the Niger Delta. Following the lower supplies of Brent-related material in August, the WTI-Brent spread was negative for the first half of the month, lowering spot exports out of the region. Narrowing refinery margins in both Northwest Europe and in the Mediterranean in September could have lowered crude demand, especially from simple hydroskimming units.

European product inventories fell by 4 mb in August to 536 mb or 3 mb lower than last year. The decline came in all product categories and despite both higher refinery throughput and lower inland

deliveries in main consuming countries, suggesting a sharp rise in exports. French product stocks were higher (+6.3 mb), offsetting lower German stocks, which fell by 5 mb. Refinery throughput for OECD Europe as a whole were sharply higher (+330 kb/d) than last month but were still 30 kb/d lower than last year. Preliminary data show inland deliveries for main consuming countries were weak in August with France, Germany and Italy all posting year-on-year declines. German domestic heating oil stocks rose to 60% of capacity at the end of August from 55% one month earlier and 52% last year.

OECD Pacific

In the Pacific, crude stocks fell by 3 mb in August to 173 mb or 9 mb below last year. An 8 mb stock draw in Japan was partly offset by higher Korean inventories. Korean crude runs were mostly unchanged from July but were still almost 250 kb/d higher than August last year. Imports however were 170 kb/d higher than July and 320 kb/d higher than August last year. In Japan, crude stocks fell by 8 mb following sharply higher throughput. These increased by 375 kb/d from July and were 50 kb/d higher than August last year. The Petroleum Association of Japan reported that domestic crude stocks trended sideways in September as lower crude runs were offset by reduced imports. In addition to scheduled maintenance in Japan, reports were made of economic run cuts due to negative refinery margins in Japan, Korea, Singapore and Taiwan, reducing regional crude demand.



Pacific product inventories built by 12 mb in August to 205 mb, or 17 mb higher than a year ago. Japanese product stocks saw a 15 mb increase, of which 9 mb came from middle distillates. The build followed sharply higher refinery throughput and weak demand. Preliminary indications of Japanese inland deliveries show kerosene deliveries down more than 20% from last year and total gasoil 9% lower. Weekly data from the Petroleum Association of Japan show that product inventories continued to build in September, despite lower refinery runs. In particular, kerosene stocks rose faster than normal and are currently 5 mb higher than last year. In contrast, Korean product stocks fell by 3 mb in August. The stock draw was driven by increased product exports and stronger demand.

OECD Inventory Position at End-August and Revisions to Preliminary Data

OECD total industry oil stocks closed August at 2727 mb, 22 mb higher than July and 89 mb higher than last year. The year-on-year surplus is largely centred in North America, where both crude and product inventories are trending above last year's level. In Europe, product stocks are currently lower than one year ago, while in the Pacific crude stocks are below those seen at the same time last year. Days of forward demand cover came to 55 days for the OECD as a whole, on par with July and one day higher than last year. Regionally, cover stood at 51 days for North America, 61 days for Europe and 54 days for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for August 2006

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**30.9**	**12.9**	**-9.0**	**34.8**	**Total Oil**	**0.9**	**0.6**	**0.5**	**0.7**
Total Products	26.7	-3.2	16.7	40.2	*Versus 2004*	3.3	1.0	3.4	2.5
Other Oils[1]	3.3	1.9	8.9	14.1	*Versus 2003*	2.3	1.1	0.7	1.6
Total Oil	**60.9**	**11.6**	**16.6**	**89.0**	**Total Products**	**0.3**	**-0.3**	**1.4**	**0.2**
Versus 2004	96.9	6.6	37.3	140.8	*Versus 2004*	1.1	-0.9	2.2	0.6
Versus 2003	118.4	15.1	7.3	140.7	*Versus 2003*	1.0	-0.5	0.2	0.3

1 includes feedstocks, NGLs and other hydrocarbons

Preliminary July stock data for OECD countries have been revised upwards by 37 mb since last month's report. The revisions were centred in crude and 'other oils' inventories in North America and Europe. The upward adjustments to crude came in Canada, the US, Italy, the Netherlands and other European countries. Only UK crude stocks were revised lower. 'Other oils' were revised upward in Canada, the US and Europe. Product inventories were revised upward by a total of 5 mb, as upwards adjustments to distillates were partly offset by lower gasoline stocks. A 6 mb downwards revision to US 'other products' was offset by upwards revisions for this category elsewhere.

Revisions versus 12 September 2006 Oil Market Report

(million barrels)

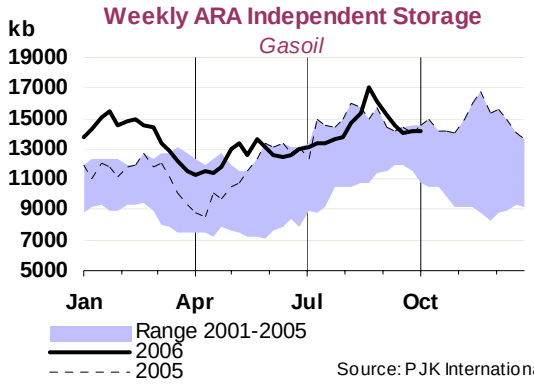
	North America		*Europe*		*Pacific*		*OECD*	
	Jun 06	Jul 06	Jun 06	Jul 06	Jun 06	Jul 06	Jun 06	Jul 06
Crude Oil	**2.3**	**8.2**	**2.1**	**11.7**	**0.5**	**0.5**	**4.9**	**20.4**
Gasoline	0.1	-0.3	-1.0	-2.7	0.2	0.4	-0.7	-2.6
Distillates	0.2	4.7	-0.2	3.4	0.2	-0.5	0.2	7.7
Residual Fuel Oil	0.1	-0.1	0.0	0.6	0.1	0.3	0.2	0.8
Other Products	-0.8	-6.1	1.1	3.8	0.6	1.8	0.9	-0.5
Total Products	**-0.3**	**-1.8**	**-0.2**	**5.1**	**1.0**	**2.0**	**0.5**	**5.3**
Other Oils[1]	0.2	8.5	0.1	3.1	0.2	-0.1	0.5	11.6
Total Oil	**2.2**	**14.9**	**2.1**	**19.9**	**1.7**	**2.5**	**5.9**	**37.4**

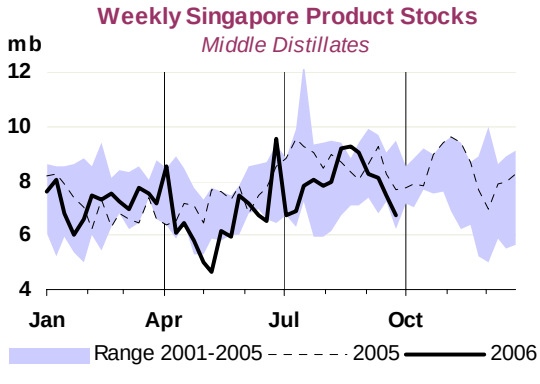
1 Other oils includes NGLs, feedstocks, and other hydrocarbons

Recent Developments in ARA Independent Storage

According to PJK International, total oil product stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp area trended largely sideways in September as a decline in gasoil stocks was mostly offset by increasing gasoline and, to a lesser extent, naphtha stocks. Gasoil stocks continued to fall from the peak seen in late August, mostly supported by strong pre-winter consumer demand for heating oil from Germany, France and Switzerland. Favourable arbitrage economics led to arrivals from India, South Korea, the US and the Baltics, outpacing outflows to the Rhine barge market, the UK and at times, to the US.

Gasoline stocks rose in ARA in September amid seasonally weaker demand. The stock increase came despite steady flows of transatlantic exports and reduced supplies as regional refineries started or planned for autumn maintenance. Towards the end of the month, refiners also switched to maximize gasoil production, at the expense of gasoline, but a widening contango end-month encouraged stock building. Fuel oil and jet-kerosene stocks were largely unchanged since the end of August. Preliminary data for FSU product exports in September show sharply lower seaborne shipments for all products, bar gasoil, leading to lower arrivals in ARA tanks. The fall in exports came despite another tax increase taking effect from 1 October, making it more expensive to export products after this date.





Recent Developments in Singapore Stocks

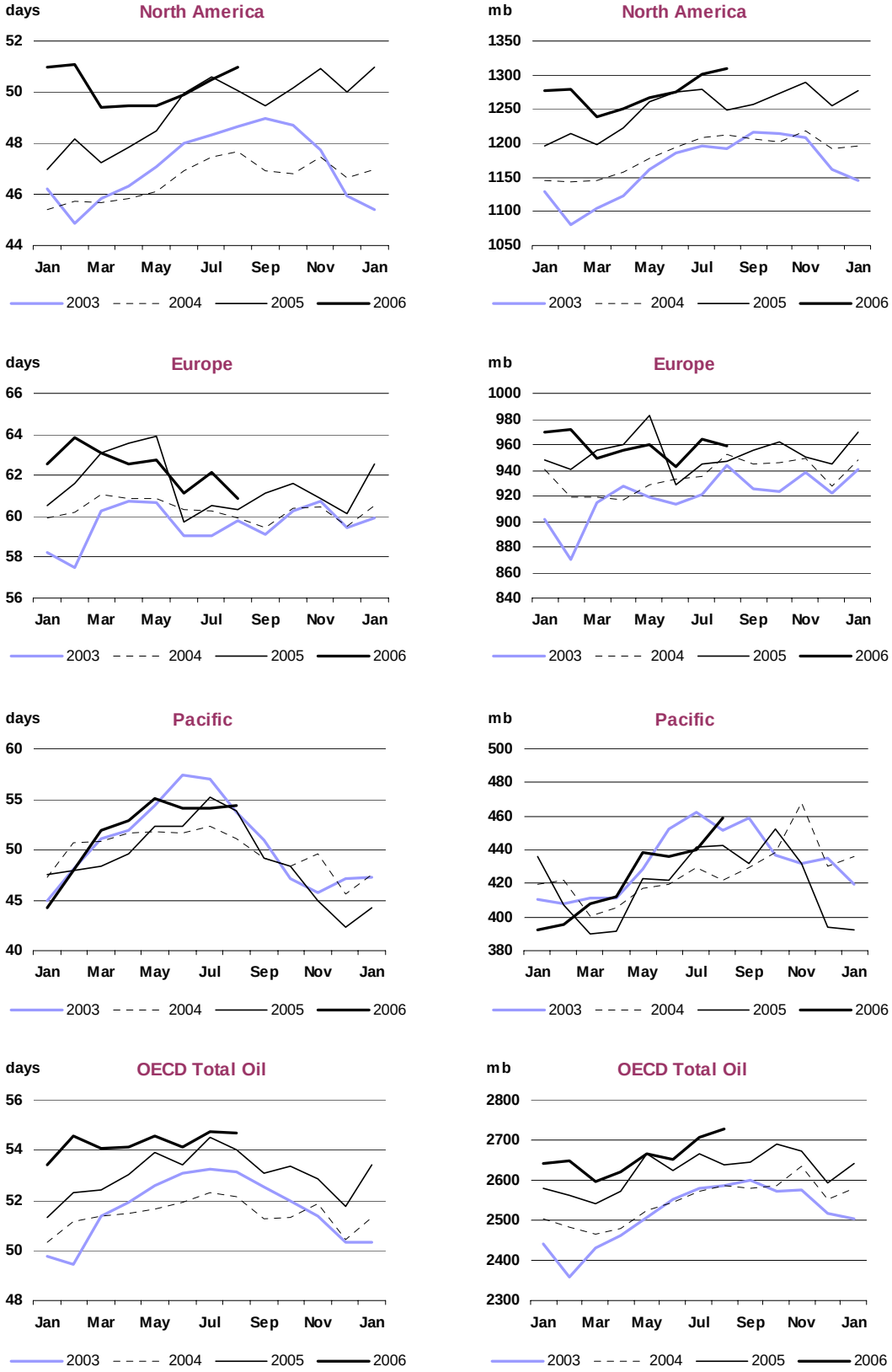
Singapore oil product inventories, as surveyed by International Enterprise, fell sharply in September as a result of regional economic refinery run cuts and lower arrivals from the West. The steepest declines were seen in middle distillates, but also residues and light distillates fell sharply. Middle distillate stocks lost more than 25% during September, falling from the top to the bottom of their five-year range. Stocks moved lower on a combination of easing arbitrage arrivals and reduced regional refinery runs as well as tightening Chinese supplies ahead of their harvest. Low demand from Indonesia and Vietnam and a flood of low-sulphur supplies from India offset some of the decline.

Light distillates also fell despite lower regional naphtha demand and a closed arbitrage for shipping gasoline to the US. Naphtha cracker outages in China and Japan as well as planned maintenance in Korea and Taiwan reduced demand. Steady Korean demand for naphtha offset some of the decline however. Residue stocks continued to slide from the record levels seen in late July and early August, losing almost 30% from early-August highs. In addition to lower regional supplies, fewer western cargoes, in particular from the FSU, arrived.

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

- **Short-term fundamental weakness ensured that oil prices continued their downward slide in September**. With the peak of the hurricane season past, forecasts that no more storms are to be expected, coupled with unusually high US gasoline and distillate stocks, offset upward pressure from bargain hunting. After dipping below $60/bbl prices levelled off in early October when talk of OPEC cuts emerged. However, while crude futures have fallen by $18/bbl from their peak in early August, they are $3-4/bbl above the 2005 average and remain historically high in both nominal and real terms.

- **Crudes with high gasoline and fuel oil yields declined more** than distillate-rich grades in September, as refiners build heating oil stocks ahead of the winter. The relative weakness of Dated Brent opened up a variety of arbitrage options, and in particular is likely to prompt an increase in shipments of West African crudes to Asia.

- **Product prices tumbled more rapidly than crude, ensuring weaker refining margins**, most noticeably in the US Gulf Coast, where cracking margins dipped into negative territory. Weakest of all remain Asian margins, dragged down by higher fuel oil yields.

- **Most dirty and clean freight rates remained firm throughout September**, but dipped in early October on talk of an OPEC cut.

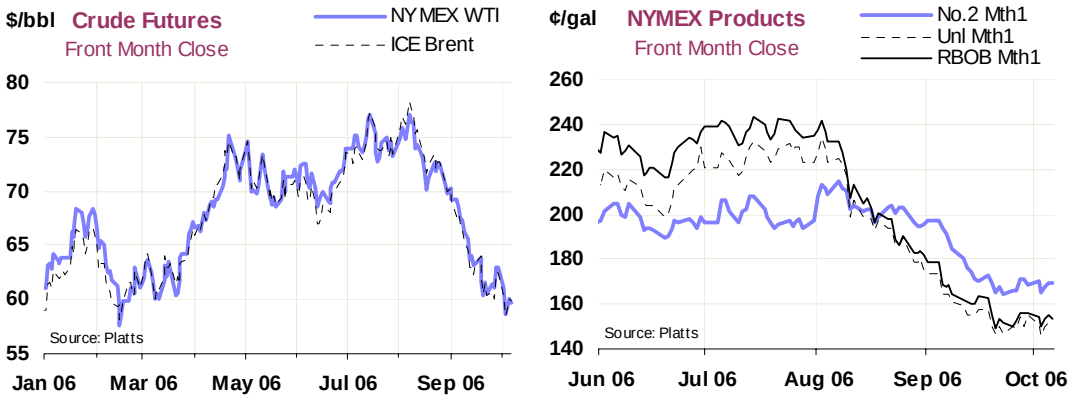
Overview

The absence of any hurricane-related support, weak product fundamentals and a temporary sidelining of geopolitical issues as the core market focus allowed oil prices to continue their downward slide in most of September and early October. Crude futures reached their lowest level since mid-February, dipping below $60/bbl, but downside momentum flagged as bargain hunters returned and talk of possible OPEC output cuts emerged.

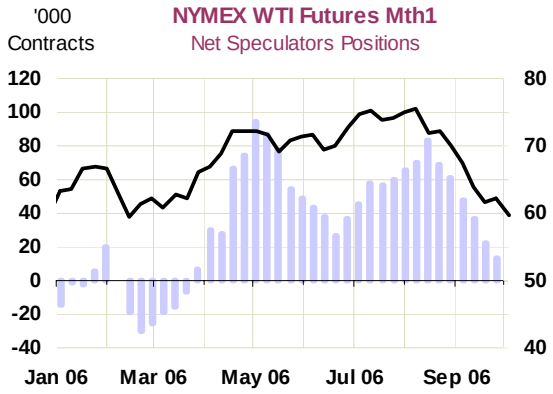
NYMEX Natural Gas, which had shown an even more dramatic fall than crude of 49% since late July on recovering US Gulf production, very high stocks and milder weather, evidenced an about-face in late September, shooting up again when some US producers hinted at output cuts. The price shift also contributed to large losses by an energy hedge fund that was betting on a hurricane-related price spike, but the unwinding of the position appeared to be accommodated by existing liquidity without undue market distortion.

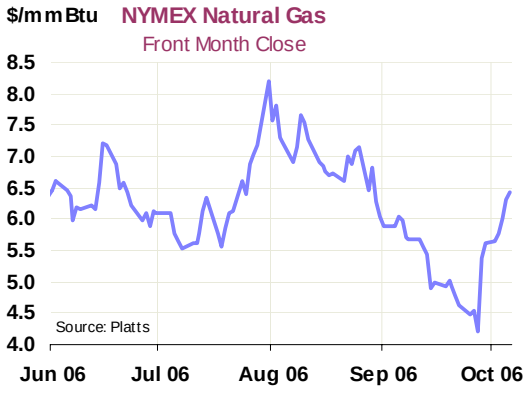
Crude and distillate futures have now fallen 22% since their early-August peaks, but remain overshadowed by Unleaded Gasoline's 33% plummet. Unusually high global refinery throughput with few hitches enabled product stocks to rise in August, a trend which continued in the US in September, putting pressure on product prices. This in turn has put pressure on a spot crude market already weakened as refiners ease up on purchases ahead of seasonal maintenance.

BP's announcement that it would be able to restart most of its Prudhoe Bay output sooner than expected, combined with lower hurricane risks to Gulf of Mexico supply, further dented crude market sentiment. The hurricane season in the US is past its peak, and most forecasters now consider that El



Niño conditions in the Pacific make further hurricanes this year unlikely. Others also indicate that the El Niño weather phenomenon can be associated with milder winter weather in the northern hemisphere, although this is far from certain. These fundamentally weaker trends have contributed to further reductions in net-long positions held by non-commercials (funds and large speculators) on the NYMEX, and likely contributed to some price weakening. However, we note that despite this decline, total open interest in WTI futures has remained more or less steady, suggesting that there has been a shift in the market structure rather than wholescale liquidation.



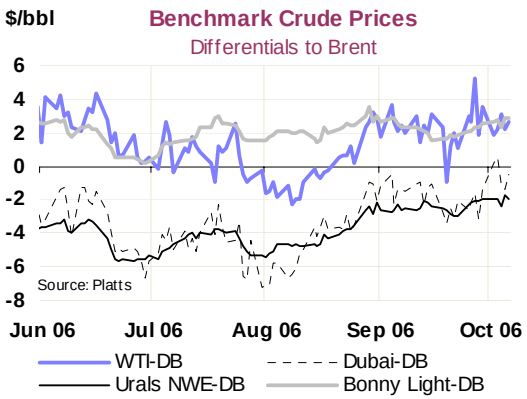


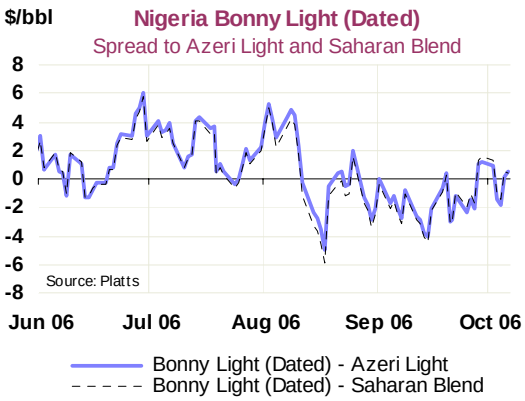
All near-term futures contracts remain in contango. But in order to accommodate a fall in spot crude prices, arbitrage economics mean that the forward premium has to be extended further along the futures curve. This has pushed the contango in WTI futures out to June 2008, and has left even the seven-year forward price higher than the spot contract.

Spot crude demand is reported to be weak on lower refiner demand due to a combination of weak refining margins and seasonal maintenance, with the latest US weekly data showing an unexpected dip below 90% utilisation for the first time since mid-May. However, this is likely to be temporary as refiners typically lift throughput to the highest levels of the year in the fourth quarter to meet peak winter demand. Geopolitical risks are still present in the market, albeit pushed into the background. New attacks were reported in Nigeria and the Iran issue remains far from resolved. News at the time of going to press that North Korea had tested an apparent nuclear device had little effect on prices. If autumn refinery maintenance turns out to be heavier than expected, perhaps motivated by low or negative margins, the product market could soon become tighter. Meanwhile, confusion over proposed OPEC output cuts and suggestions that some members of the producer group favour defending a basket price of $50-55/bbl (around $55 to $60/bbl on WTI and Brent futures) are offering psychological, if not yet physical, support to prices.

Crude Oil Prices

Crude prices all fell in September, though like last month, those with higher gasoline or fuel oil yields tended to suffer more. Dated Brent remained relatively weak on soft demand, opening up a variety of arbitrage options. Physical Brent/Dubai spreads have remained quite narrow, even briefly dipping into negative territory on 3 October, a rare occurrence. After a hiatus, West African (WAF) and other Brent-related crude flows to Asia look set to pick up again, with refiners reportedly upping purchases to over 1 mb/d for October. This is still relatively low compared to 1.7 mb/d seen earlier this year, but





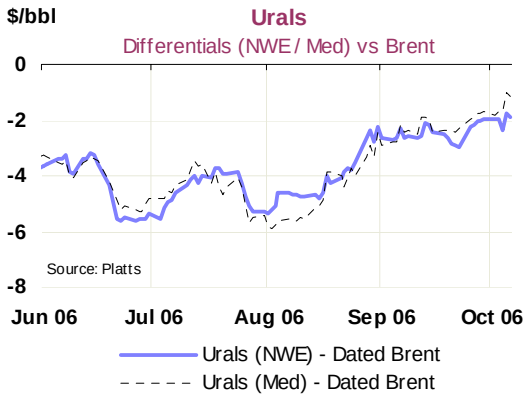
more than in September. Lower demand for WAF crudes in the US, where gasoline margins tumbled most, have kept Nigerian grades at a discount to Mediterranean competitors Saharan Blend and Azeri Light. WTI overall maintained its premium versus Dated Brent, sustaining the possibility of transatlantic shipments.

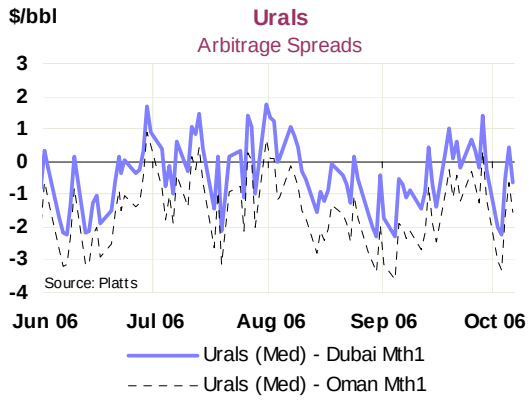
Spot Crude Oil Prices and Differentials

(monthly and weekly averages, $/bbl)

	Jul	Aug	Sep	Sep-Aug Avg Change	%	Week Commencing: 04 Sep	11 Sep	18 Sep	25 Sep	02 Oct
Crudes										
Dated Brent	73.66	73.11	61.71	-11.40	-15.6	65.20	61.60	60.20	58.72	57.33
Brent (Asia) Mth1 adjusted	74.78	74.06	64.63	-9.42	-12.7	68.79	65.09	62.29	61.02	61.28
WTI (Cushing) Mth1 adjusted	74.38	73.01	63.74	-9.27	-12.7	67.41	63.94	61.32	61.96	59.72
Urals (Northwest Europe)	69.19	68.97	59.24	-9.73	-14.1	62.64	59.21	57.43	56.61	55.33
Urals (Mediterranean)	69.20	68.49	59.47	-9.02	-13.2	62.68	59.47	57.84	56.91	55.85
Dubai Mth1 adjusted	69.17	68.77	59.82	-8.95	-13.0	63.77	60.27	57.46	56.51	56.85
Dubai Swaps Mth1 adjusted	69.50	69.20	60.58	-8.62	-12.5	64.38	61.00	58.34	57.35	57.55
Minas (Dated)	74.13	75.21	63.32	-11.89	-15.8	65.52	64.23	62.16	60.05	57.69
Tapis (Dated)	78.16	78.53	69.03	-9.50	-12.1	72.98	69.36	67.08	65.43	63.97
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	0.72	-0.10	2.03	2.13		2.21	2.34	1.12	3.24	2.39
Urals (Mediterranean)	-4.46	-4.62	-2.24	2.38		-2.52	-2.13	-2.36	-1.81	-1.48
Urals (Northwest Europe)	-4.47	-4.14	-2.47	1.67		-2.56	-2.39	-2.77	-2.11	-2.00
Dubai Mth1 adjusted - Dated Brent	-4.49	-4.34	-1.89	2.45		-1.43	-1.33	-2.74	-2.21	-0.47
Dubai Swaps - Brent Asia	-5.28	-4.86	-4.06	0.80		-4.41	-4.09	-3.95	-3.67	-3.73
Tapis (Dated)	4.50	5.42	7.32	1.90		7.78	7.76	6.89	6.71	6.64
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-0.46	-0.59	-1.02	-0.43		-0.91	-1.04	-1.04	-1.13	-0.99
Forward WTI Cushing Mth1-Mth2 adj	-1.12	-1.08	-0.87	0.22		-1.13	-0.90	-0.51	-0.92	-1.28

Urals differentials to Dated Brent decreased to their narrowest since February, hovering around $2/bbl, as the winter approaches, and the Russian crude's popularity as a distillate-rich grade increased. In addition, the first delays through the Turkish Straits have appeared as daylight hours shrink and passages are limited. Russian export volumes are expected to dip slightly in October on high domestic refining margins and a higher export duty from 1 October. Despite the fall in prices, the retrospective calculation of the tax means it will lag spot market developments. Meanwhile, Urals's spreads against Oman and Dubai were favourable in terms of moving crude eastwards.





Middle Eastern crude differentials weakened, with many producers feeling the pinch from fuel oil's weakness. Oman's September official selling price (OSP) was retrospectively set at its lowest premium since October 2001, and other producers, such as Qatar and the UAE, made similar cuts. Distillate-rich Murban was also under pressure from Japanese stocks of winter fuel kerosene being at the top end of their three-year range.

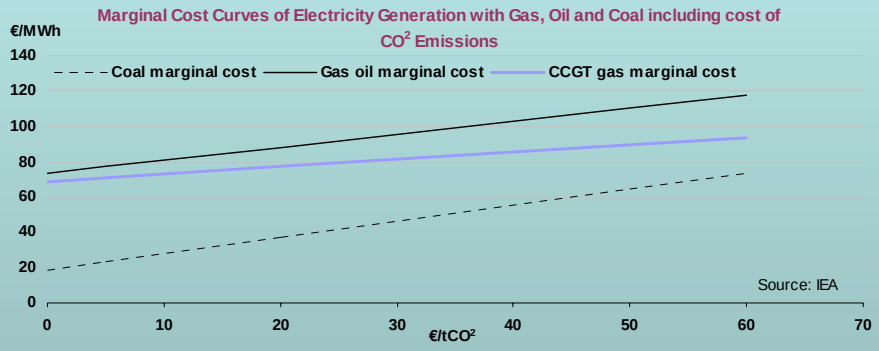
Another Look at Fuel Switching

Rapidly sliding oil prices have pushed fuel oil prices below those of natural gas in continental Europe, opening up, on paper at least, the potential for fuel switching by utilities. Large consumers such as Germany have deliberately pegged their natural gas prices to oil, but with a time lag of 3-6 months. Therefore, while the world petroleum market has seen the largest nominal downward price correction for many years and US and UK utilities are seeing spot natural gas prices at unusually low levels, some European utilities are starting to pay gas prices related to the second-quarter price spike.

This situation is a sea change from when we last looked at this in July 2005 (see report dated 13 July 2005), when natural gas prices had a distinct advantage over fuel oil. But the relative price of fuel oil and natural gas is only one factor in the decision to switch. Switching costs, infrastructure constraints and the cost of CO_2 emissions (as oil-fired plants release more than gas-fired ones) are other factors to consider.

Therefore, despite the potentially attractive economics, it remains far from certain that any switching would actually take place. Of total operational European electricity-generating capacity (around 695 GW), some 21% is gas-fired. Of this share, only around 20 GW of advanced, combined cycle gas turbine (CCGT) plants – so less than 3% of the total – can actually physically switch to oil intake. From a technical perspective switching from natural gas to even low-sulphur fuel oil (LSFO) is unlikely. CCGT plants are typically restricted to burning gas oil as an alternative due to technical difficulties, such as corrosion from the heavy metals content in fuel oil. Gas oil however is approximately twice the price of LSFO in Northwest Europe. Assuming an early-October German gas price of $8.68/MBtu, and a gas oil price CIF NWE 0.2% of $12.26/MBtu, our calculation shows that in this case electricity produced from gas is still cheaper.

Perhaps a more significant barrier to fuel oil switching is that many utilities are locked into long-term gas supply contracts. Many such contracts involve a base load amount that consumers must take, with only relatively small swing volumes in order to adapt to demand fluctuations. Moreover, there are often contractual restrictions preventing the resale of the gas, and more importantly there are also logistical hurdles such as lack of third-party access to gas pipelines across much of Europe. This means that in practice, the only switching that might take place would be on marginal or surge demand – always a possibility during winter, but a factor that may prevent a significant uptick in fuel oil demand.



Fuel switching is however taking place in other regions, particularly in the world's largest fuel oil exporter, Russia. Giant power utility UES has started to use more fuel oil instead of natural gas due to pressure from Gazprom. A glut of increasingly unpopular fuel oil on world markets – much of it from Russia – is one of the main reasons for its depressed price, and the challenge ahead for the refining industry is effectively fuel oil destruction. From a domestic perspective, using more fuel oil internally would likely lift the price of fuel oil exports, while at the same time freeing more natural gas supply for export. Reportedly, additional consumption by UES will raise Russian fuel oil demand by some 70 kb/d, which will not enough to cause a substantial change in fuel oil economics, but could have an effect at the margin. In terms of demand shifts, this in itself is probably as significant as fuel oil switching potential in Europe.

It could be argued that much of the potential for switching in Europe is due to regional methods of pricing natural gas, and in this regard, the recent temporary move to negative natural gas prices in the UK could prompt switching in the other direction. In the US, where prices for natural gas and fuel oil are market based, the sharp fall in natural gas prices has led to a decline in fuel oil burning by utilities. On the other side of the world, the Japan Gas Association registered a 13% year-on-year increase in industrial gas demand for the first half of 2006, as the indexation in gas import contracts has favoured its use over oil, though it is not yet clear whether fuel oil demand has been affected by this.

Ultimately, while there could be some increase in fuel oil switching in Europe over the fourth quarter, the weather is likely to be a bigger driver of fuel oil demand in the region. Fuel oil demand typically fluctuates between 1.6 mb/d in the weak third-quarter demand period, before rising to around 2.1 mb/d in peak winter months (December through February). Any switching in addition to this effect is likely to be marginal and could be offset by switching in the other direction in other parts of the world.

Delivered Crude Prices in July

The price paid by IEA countries for an average barrel of delivered crude climbed by almost $3 in July, reaching $68.67/bbl. This reflected the rising cost of crude types favoured by IEA importers in the second quarter combined with firmer freight rates in May and June. European IEA countries experienced a delivered price rise of $3.83/bbl in July, compared to increases of $2.97/bbl and $1.25/bbl in North American and Pacific member countries respectively. Average CIF crude prices for July were at $69.71/bbl in IEA Europe, $67.48 in IEA North America and $68.88/bbl in IEA Pacific, the highest monthly levels in all three regions for 2006 so far.

Refining Margins

With product prices falling more rapidly than crude, most crack spreads narrowed in September, as did refining margins. This was most evident on the US Gulf Coast, where cracking and coking margins fell by nearly $6/bbl on average. Weakest of all was Brent cracking, which moved sharply into negative territory on gasoline's weakness, and contributed to the marker crude's decline in price. LLS cracking on the US Gulf also turned negative briefly but made a modest recovery by the end of the month. In Europe, cracking margins fell too, but remain positive, unlike hydroskimming margins, which stayed negative on fuel oil's weakness. In Asia, despite some gains through September, all refining margins except Dubai hydrocracking remain well below zero. This is what tempted some refiners in Singapore, Japan and Korea to cut runs already in September, and more could potentially follow suit. Having said that, heavy fuel oil prices in Singapore actually stayed steady in September after lower arbitrage volumes from the west led to a sharp fall in stocks.

Selected Refining Margins in Major Refining Centres

($/bbl)

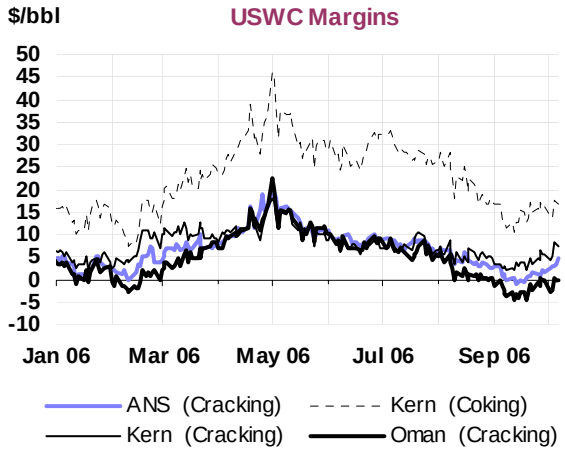
		Monthly Average			Change	Week Ending:				
		Jul 06	Aug 06	Sep 06	Sep 06-Aug 06	08 Sep	15 Sep	22 Sep	29 Sep	06 Oct
NW Europe	Brent (Cracking)	6.49	4.17	2.59	-1.58	3.33	1.81	1.92	3.02	2.86
	Urals (Cracking)	8.82	6.37	3.77	-2.59	4.30	3.07	3.54	3.99	3.89
	Brent (Hydroskimming)	-2.43	-2.82	-2.52	0.31	-1.81	-2.94	-3.42	-2.07	-1.86
	Urals (Hydroskimming)	-2.24	-2.86	-2.79	0.08	-2.67	-3.03	-3.06	-2.40	-2.01
Mediterranean	Es Sider (Cracking)	7.46	5.68	1.52	-4.17	2.83	1.08	0.74	1.03	0.69
	Urals (Cracking)	8.50	6.54	2.97	-3.57	3.78	2.61	2.37	2.88	2.80
	Es Sider (Hydroskimming)	-2.02	-1.89	-4.09	-2.19	-2.77	-4.32	-5.05	-4.57	-4.68
	Urals (Hydroskimming)	-2.53	-3.26	-3.91	-0.65	-3.64	-3.86	-4.40	-3.74	-3.58
US Gulf Coast	Brent (Cracking)	5.92	0.18	-4.06	-4.24	-3.70	-5.27	-5.39	-2.14	-2.73
	LLS (Cracking)	10.04	5.74	-0.48	-6.23	-0.36	-1.64	-0.83	0.55	0.73
	Mars (Cracking)	6.98	4.28	0.15	-4.13	0.32	-0.45	0.05	0.34	0.68
	Mars (Coking)	16.71	13.02	6.36	-6.66	6.75	4.92	6.16	7.12	6.91
	Maya (Coking)	23.09	14.95	8.21	-6.73	8.07	6.95	7.83	9.70	9.46
US West Coast	ANS (Cracking)	7.86	4.41	0.63	-3.78	0.79	-0.37	0.42	1.27	3.22
	Kern (Cracking)	7.51	5.41	3.53	-1.87	2.52	3.03	3.35	5.31	6.56
	Oman (Cracking)	6.36	1.81	-2.22	-4.03	-2.15	-3.62	-2.81	-0.48	-1.14
	Kern (Coking)	28.45	21.65	14.29	-7.36	13.47	12.71	14.63	15.84	15.79
Singapore	Dubai (Hydroskimming)	-3.70	-4.72	-3.82	0.91	-4.40	-4.18	-3.53	-2.85	-2.93
	Tapis (Hydroskimming)	-5.34	-7.73	-7.98	-0.25	-7.83	-8.41	-8.24	-7.39	-6.58
	Dubai (Hydrocracking)	2.07	1.46	0.98	-0.48	1.35	0.47	0.98	1.17	0.79
	Tapis (Hydrocracking)	-1.65	-3.13	-4.07	-0.94	-3.25	-4.62	-4.55	-3.98	-3.00
China	Cabinda (Hydroskimming)	-4.81	-7.38	-5.37	2.01	-6.01	-4.82	-5.24	-5.15	-5.19
	Daqing (Hydroskimming)	-8.48	-12.98	-10.10	2.88	-10.66	-10.53	-10.16	-8.53	-8.17
	Dubai (Hydroskimming)	-4.37	-5.31	-4.38	0.94	-4.90	-4.71	-4.15	-3.45	-3.42
	Daqing (Hydrocracking)	-2.32	-5.93	-4.60	1.33	-4.66	-5.22	-4.76	-3.44	-2.93
	Dubai (Hydrocracking)	1.44	0.86	0.35	-0.51	0.79	-0.14	0.29	0.49	0.22

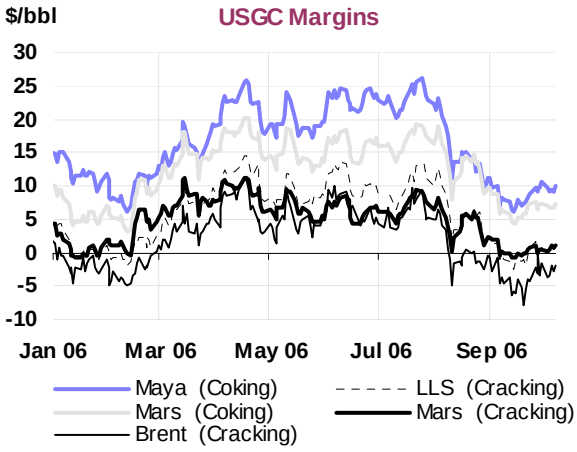
For the purposes of this report, refining margins are calculated for various complexity configurations, each optimized for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability 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.

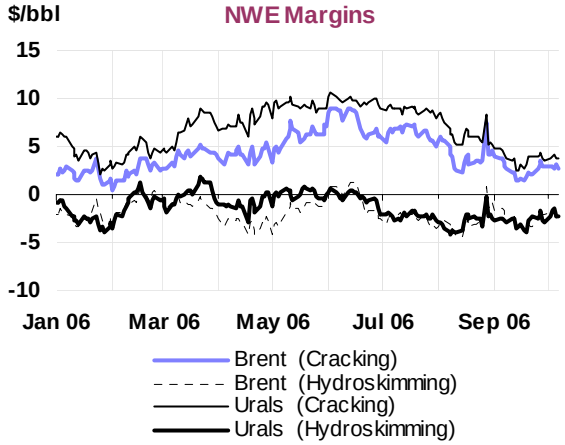
*The China refinery margin calculation represents a model based on spot product import/export parity, and does not reflect internal pricing regulations.

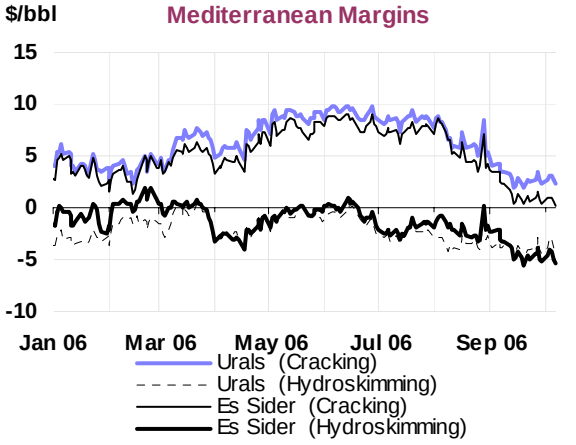
Sources: IEA, Purvin & Gertz Inc.

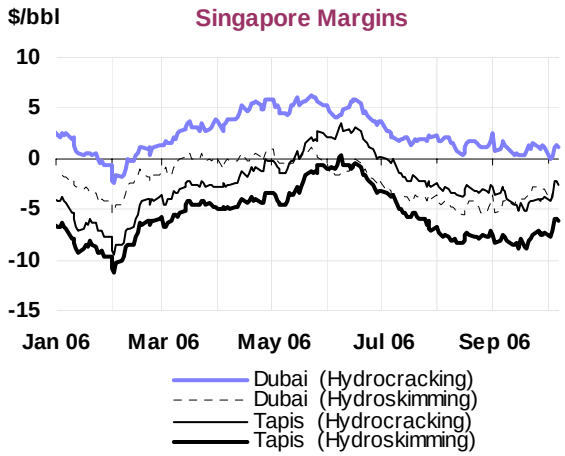
Regional Full-Cost Refining Margins

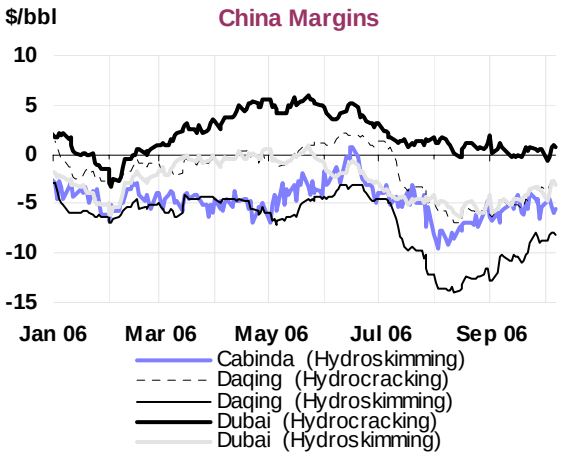






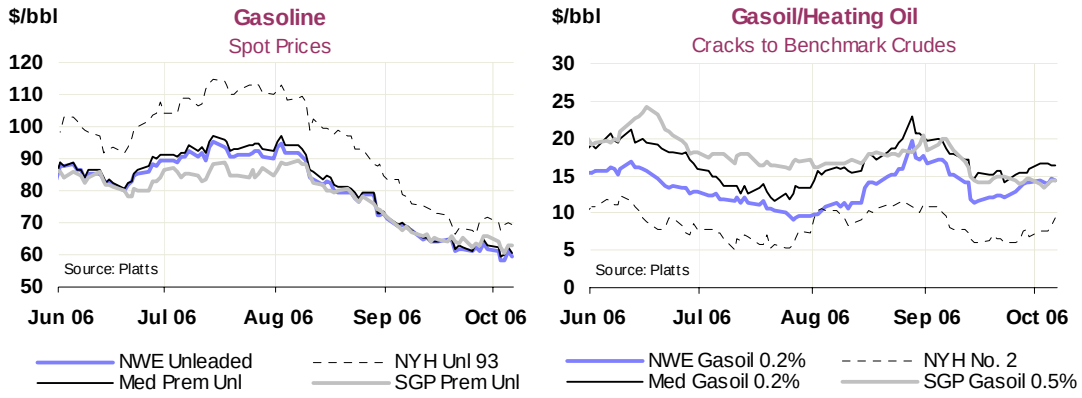






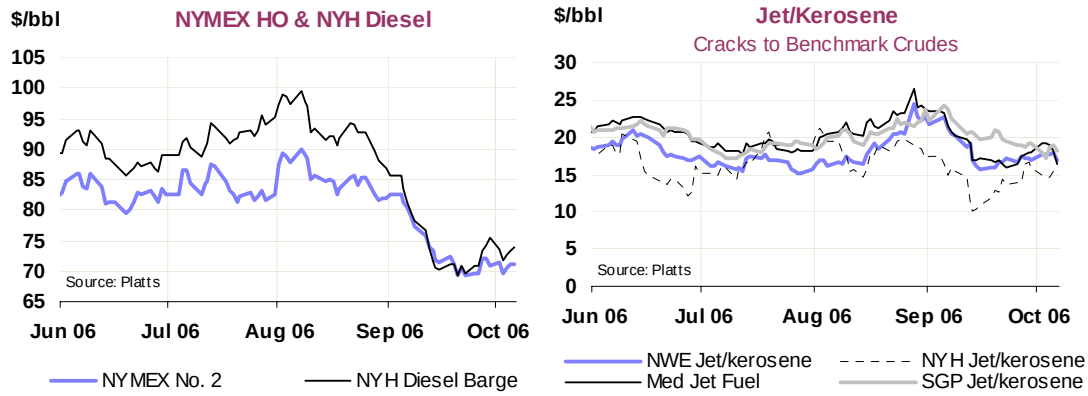
Product Prices

All refined products fell in September and early October, but gasoline fell most on low seasonal demand and high stocks. The flows of European barrels across the Atlantic started to dry up, pressuring prices in Europe too, and causing ARA stocks to rise. In Asia, the situation was somewhat similar, where the arbitrage to the US West Coast was also closed, pressuring prices.



Despite their slide, distillates are seeing the greatest strength in all regions. In the US, ULSD values are being shored up by the 15 October deadline for retailers to provide the material. After that (and so far no problems have been reported), the switch to the new specifications will be completed, at least until 2009, when 100% rather than the current 80% of on-road diesel must have a maximum sulphur content of 15 ppm. Refiners appear to have coped well, boosting ULSD output, which caused its premium to heating oil to narrow by mid-September. Heating oil cracks however remain higher in Europe, which is structurally tighter. In September the US moved some 1 million tonnes of higher-sulphur distillate, i.e. heating oil, to Europe, but this flow could also dry up as winter approaches. Strong demand for heating oil came from German and other domestic consumers, continuing seasonal tank refilling that started in June. Distillates are also tight in Singapore, where in early October stocks fell to their lowest in three months.

Jet cracks remained highest, rising again in the second half of September and into October on healthy demand. The exception was to some extent Asia, where Japanese winter heating fuel kerosene stocks are high. China Aviation will reportedly buy fewer barrels for October and November, after record monthly purchases for September of 542,000 tonnes, though demand in Vietnam remained firm.



Fuel oil is generally still suffering from oversupply and falling demand, though the reduction in flows from Europe to Singapore stemmed its price fall in Singapore. October flows are expected to be only around 1.1 million tonnes, well below the three-million-tonne levels seen in June to August. As a result, Singapore high-sulphur 380cst has managed to stay constant at around $45/barrel from early September, and saw its discount to Dubai narrow markedly. In turn, this is likely to open the arbitrage again from Northwest Europe, where independent ARA stocks have remained above their five-year average. This is in contrast to Singapore, where they have fallen back to a more normal level, though there are reports of some barrels in floating storage in the region. Any refinery run cuts ahead would trim fuel oil output more than other products, and South Korean exports in October are expected to be lower.

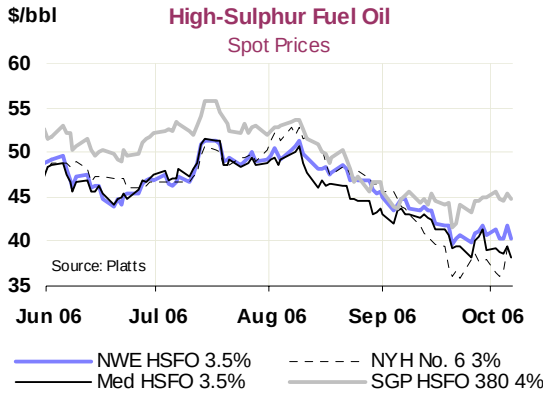
Spot Product Prices

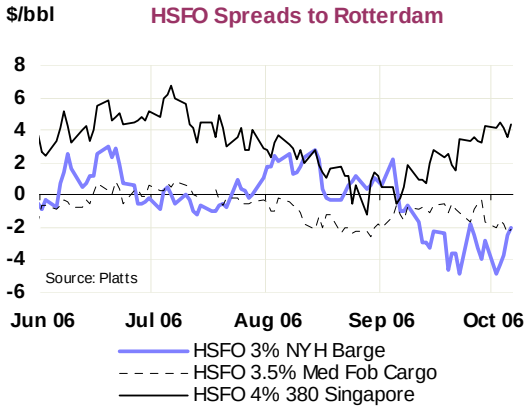
(monthly and weekly averages, $/bbl)

	Jul	Aug	Sep	Sep-Aug		Week Commencing:					Jul	Aug	Sep
				Change	%	04 Sep	11 Sep	18 Sep	25 Sep	02 Oct			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	92.90	84.58	65.96	-18.61	-22.0	69.90	65.76	63.92	62.92	60.77	19.24	11.47	4.25
Naphtha	71.04	68.45	57.65	-10.80	-15.8	60.20	56.84	56.65	55.87	55.76	-2.62	-4.66	-4.06
Jet/Kerosene	89.93	91.93	79.93	-12.00	-13.1	86.53	78.92	76.67	75.77	74.85	16.27	18.82	18.22
ULSD	87.80	89.75	77.31	-12.44	-13.9	83.14	75.61	73.98	74.74	73.55	14.14	16.65	15.60
Gasoil .2%	84.65	86.61	75.50	-11.11	-12.8	81.37	74.16	72.38	72.38	71.58	10.99	13.50	13.79
LSFO 1%	47.93	48.22	43.71	-4.51	-9.3	46.36	45.23	41.96	40.62	38.17	-25.73	-24.89	-18.00
HSFO 3.5%	48.78	48.39	42.41	-5.99	-12.4	44.17	43.22	40.86	40.86	40.83	-24.88	-24.72	-19.30
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm	91.74	83.31	64.09	-19.22	-23.1	67.60	63.34	62.23	61.91	59.74	22.54	14.81	4.62
Naphtha	69.73	67.35	56.55	-10.79	-16.0	59.16	55.75	55.53	54.76	54.94	0.53	-1.15	-2.92
Jet Aviation fuel	87.76	90.39	78.14	-12.24	-13.5	84.51	77.43	74.35	74.33	74.13	18.56	21.89	18.67
Gasoil .2%	82.58	85.99	75.92	-10.07	-11.7	81.48	75.28	72.94	72.35	72.39	13.37	17.50	16.45
LSFO 1%	51.56	51.84	42.56	-9.28	-17.9	46.17	42.95	40.00	40.12	38.91	-17.65	-16.65	-16.91
HSFO 3.5%	48.79	46.90	41.41	-5.49	-11.7	43.06	42.38	40.04	39.86	38.87	-20.41	-21.59	-18.06
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	111.10	99.35	72.83	-26.52	-26.7	77.79	73.94	68.94	69.54	69.37	36.72	26.35	9.09
Unleaded	94.28	85.55	66.77	-18.78	-22.0	69.31	67.32	64.35	65.02	64.64	19.90	12.55	3.03
Jet/Kerosene	92.15	91.28	77.65	-13.63	-14.9	83.06	75.28	74.33	77.28	74.74	17.77	18.28	13.91
No. 2 (Heating Oil)	80.71	83.21	71.10	-12.11	-14.6	76.29	70.72	67.81	68.84	67.77	6.33	10.20	7.36
LSFO 1%	48.51	50.32	39.91	-10.41	-20.7	43.88	40.69	37.05	37.61	37.01	-25.87	-22.69	-23.83
No. 6 3%	48.71	49.51	39.97	-9.54	-19.3	43.88	40.60	37.05	38.00	37.37	-25.67	-23.50	-23.77
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	85.50	81.22	65.86	-15.36	-18.9	68.21	65.35	64.53	64.11	62.49	16.34	12.46	6.04
Naphtha	70.55	66.59	57.32	-9.26	-13.9	59.90	56.94	55.91	55.43	56.08	1.38	-2.18	-2.49
Jet/Kerosene	87.57	89.47	80.55	-8.93	-10.0	86.96	80.60	77.61	75.46	75.06	18.41	20.71	20.73
Gasoil .5%	86.27	86.29	75.85	-10.44	-12.1	83.02	75.55	72.20	70.90	70.81	17.11	17.52	16.03
LSWR Cracked	57.59	51.77	44.45	-7.32	-14.1	45.72	45.05	43.19	43.34	41.40	-11.58	-16.99	-15.37
HSFO 180 CST	53.53	50.68	44.29	-6.39	-12.6	45.21	44.99	42.63	44.04	44.79	-15.64	-18.09	-15.52
HSFO 380 CST 4%	53.16	49.90	44.27	-5.63	-11.3	44.57	44.66	43.20	44.40	44.95	-16.00	-18.86	-15.55

End-User Product Prices in September

Falling product prices brought relief to consumers in all OECD countries surveyed in September. The switch to winter-grade specification product, coupled with the US driving season coming to a close led to a strong decline in gasoline futures. These fed through into lower September retail prices, particularly for gasoline, falling by 15-22% in Europe and North America on the prior month, on an ex-tax, US-dollar basis. Diesel losses were in comparison only 5-10%, on a similar basis, while heating oil fell by up to 9% month-on-month. Fuel oil price declines were more mixed, with UK industry paying 18% less for low-sulphur fuel oil in September, the largest monthly drop observed for this product in the survey. Consumer price declines were less dramatic in Japan, where net gasoline and heating oil prices fell by only 1% in US dollar terms, while diesel prices were flat at the pump compared to August.

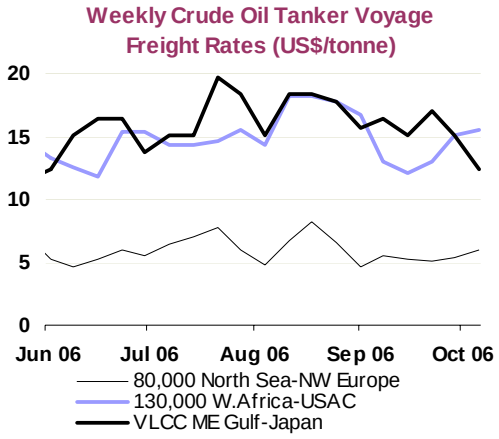


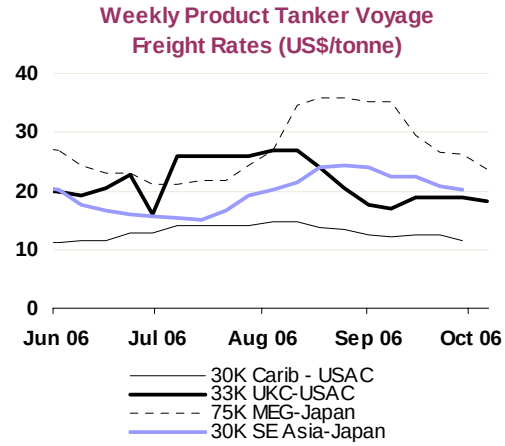


Freight

VLCC freight rates in the Middle East Gulf were firm in September but fell substantially in early October following the prospect of reduced OPEC output. Conversely, Atlantic basin crude tanker rates were weak mid-September but rebounded significantly by October as fourth-quarter demand began to support shipping rates. Elsewhere, falling product prices and the closure of certain arbitrage opportunities undermined dirty and clean tanker rates in early September, ending a summer of above-average rates caused by healthy August crude runs, Alaskan outages and high US product imports.

From mid-August to October, tumbling product prices eroded refining profitability. Several Asian refiners reportedly responded by reducing runs in September, denting spot crude tanker demand. Nevertheless, healthy interest for vessels loading in October in the Middle East drove a mid-September eastbound VLCC rate spike. Middle East Gulf to Japan rates started and ended September at $15/tonne but peaked at over $18/tonne mid-month. VLCC rates to the US Gulf were also resilient, staying around $26/tonne for the whole of September. US refinery runs and crude imports remained above seasonal norms throughout the month and tanker sailings data suggested that Middle East Gulf sailings to the US remained high until the end of September. In early October, VLCC rates fell significantly in anticipation of OPEC supply cuts, with routes to Japan sinking below $12/tonne by 5 October.





Crude freight rates in the Atlantic Basin weakened in early September. Large declines in gasoline prices reduced the appeal of light, sweet cargoes from West Africa and North Europe. Further downward pressure to spot tanker rates came from continued Nigerian outages, BP's announcement of an early recovery in Prudhoe Bay output, North Sea field maintenance and an abundance of vessels looking to backhaul on their ballast journey from the US. VLCC freight from West Africa to the US Gulf fell by a third in the first half of September, to $13/tonne. Mid-month Suezmax rates on the same route had dropped $5 to $12/tonne and, for Northwest Europe to US Atlantic Coast, by $6 to an $11/tonne low. Eastbound VLCC rates from West Africa also fell over this period despite a narrowing premium of Brent over Dubai in September, which on paper makes trade to the East more favourable. By the start of October, however, Atlantic basin freight had regained much of the early-September loss as Eastern interest in Atlantic grades grew and seasonal fourth quarter demand in Western markets began to support vessel interest.

Panamax rates in all regions were undermined by falling gas prices, as industry in the western hemisphere switched away from burning fuel oil, a popular Panamax cargo, to increasingly cheaper gas. Caribbean to US dirty rates for 50,000-tonne cargoes, for example, dropped by 50% in September.

Clean rates fell from high August levels, although remain firm for the season. Shipping 30,000 tonnes of clean cargo from Singapore to Japan cost $23/tonne at the start of October, down from $27/tonne one month earlier. Transatlantic clean product rates for 25,000 tonnes rebounded to $22/tonne by early October after several weeks in decline, which culminated in a mid-September low of $18/tonne.

REFINERY ACTIVITY

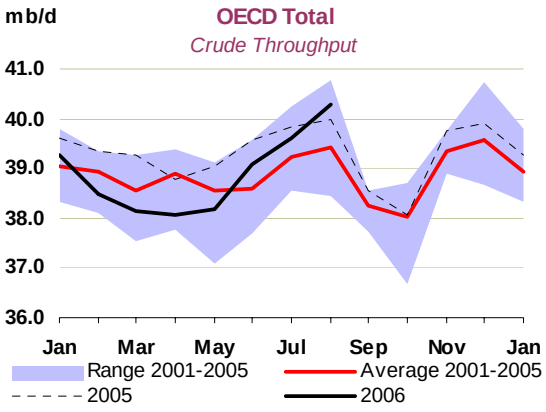
Summary

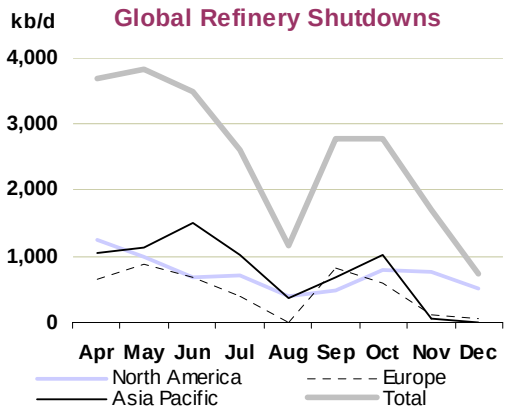
- **OECD refinery throughput reached 40.3 mb/d in August.** This is the third-highest level of crude runs since January 2000 and the highest since December 2004. The increase of 663 kb/d from July was driven by gains in Europe and the Pacific, while North American runs were flat versus the previous month.

- **OECD refinery runs are expected to have fallen in September.** The weaker margin environment has encouraged some refiners to expand planned maintenance work and prompted some refiners in the Pacific to introduce voluntary run cuts.

- **OECD yield data for July suggest that jet yields** remain under pressure in North America, but have risen to above seasonal norms in Europe and the Pacific. Gasoil/diesel yields continue to register strong gains versus last year and the five-year average as refiners in North America complete the introduction of ULSD.

- **Offline refinery capacity in the OECD** is projected decline from the October peak, potentially raising crude runs by up to 1.5 mb/d over the balance of the fourth quarter, ahead of peak winter oil demand. Offline OECD capacity is estimated to have increased from 1.7 mb/d in September to its seasonal peak of 2.2 mb/d in October as maintenance work and voluntary run cuts curtail crude runs.





Refinery Throughput

OECD refinery throughput in August was 40.27 mb/d, the third highest monthly average since January 2000 and the highest level since December 2004. The increase of 663 kb/d from July's upwardly revised (+79 kb/d) figure of 39.61 mb/d was due to gains equally split between the Pacific and Europe, as maintenance work dropped to its lowest level of the year. Average August OECD throughput was 297 kb/d above the level in August 2005, the first time since June 2005 that runs have registered a year-on-year increase.

Average OECD capacity utilisation increased to 89.3% in August, up from 87.9% in July and this compares with 89.4% this time last year. Weekly data for the US and Japan suggest that OECD crude runs declined in September and early October due to autumn maintenance and economic run cuts in the Pacific. Furthermore, while unplanned shutdowns may have reduced crude runs in recent weeks, problems appear to have been more prevalent in upgrading and hydrotreating capacity, rather than crude distillation.

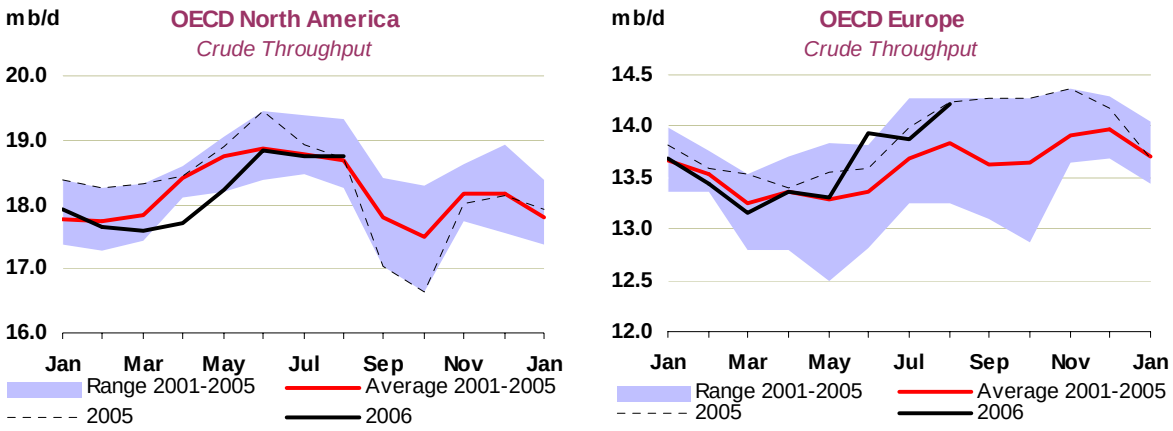
Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*		Utilisation rate[2]	
	Mar 06	Apr 06	May 06	Jun 06	Jul 06	Aug 06	*Jul 06*	*Aug 05*	Aug 06	Aug 05
OECD North America										
US[3]	14.58	14.94	15.52	15.84	15.67	15.76	0.10	0.14	90.64	91.19
Canada	1.80	1.52	1.49	1.79	1.84	1.76	-0.08	-0.07	87.14	90.48
Mexico	1.19	1.26	1.22	1.22	1.25	1.22	-0.03	-0.06	72.58	71.96
Total	17.58	17.71	18.22	18.85	18.75	18.74	-0.01	0.01	88.87	89.90
OECD Europe										
France	1.57	1.49	1.49	1.64	1.72	1.81	0.09	0.03	91.26	91.13
Germany	2.08	2.30	2.37	2.34	2.37	2.42	0.06	-0.02	99.74	99.48
Italy	1.82	1.81	1.50	1.87	1.87	1.92	0.05	0.01	82.75	82.46
Netherlands	1.00	0.88	0.92	0.99	0.94	0.99	0.05	-0.06	80.66	84.85
Spain	1.24	1.20	1.22	1.26	1.19	1.24	0.05	0.05	97.73	94.05
UK	1.44	1.51	1.59	1.60	1.61	1.68	0.06	-0.01	89.31	92.59
Other OECD Europe	4.01	4.18	4.21	4.23	4.18	4.15	-0.02	-0.02	86.11	89.48
Total	13.16	13.37	13.30	13.92	13.88	14.21	0.33	-0.03	89.22	90.58
OECD Pacific										
Japan	4.31	3.96	3.50	3.51	3.84	4.22	0.38	0.05	90.33	88.59
Korea	2.41	2.33	2.52	2.14	2.43	2.41	-0.02	0.25	93.47	83.89
Other OECD Pacific	0.69	0.69	0.62	0.65	0.70	0.69	-0.01	0.02	85.30	77.99
Total	7.41	6.98	6.64	6.30	6.97	7.31	0.34	0.31	90.83	85.99
OECD Total	38.15	38.06	38.17	39.08	39.61	40.27	0.66	0.30	89.34	89.43

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

OECD North America

Provisional data for August show that North American crude throughput was essentially flat from July, falling by 9 kb/d to an estimated 18.74 mb/d. The decline from July's upwardly revised level of 18.75 mb/d (+68 kb/d) was the result of higher throughput in the US (+96 kb/d) but these were more than offset by planned maintenance activity in Canada and a slight decline in Mexican throughput. Consequently North American capacity utilisation in August was unchanged from July at 88.9%.



August US throughput increased by 96 kb/d to an average of 15.76 mb/d as unplanned outages receded (with the exception of the West Coast). Average capacity utilisation increased to 90.6%, from July's 90.1%. US crude runs registered their first increase against levels of the previous year since June 2005, although it should be noted that August 2005 crude runs were curtailed at the end of the month by the impact of Hurricane Katrina. Crude runs on the East Coast and Midwest recovered from the disruptions seen in July and early August while West Coast runs declined over the course of the month with reports indicating that problems at Shell and ExxonMobil plants in California curtailed throughput.

Constraints on Spare Refining Capacity

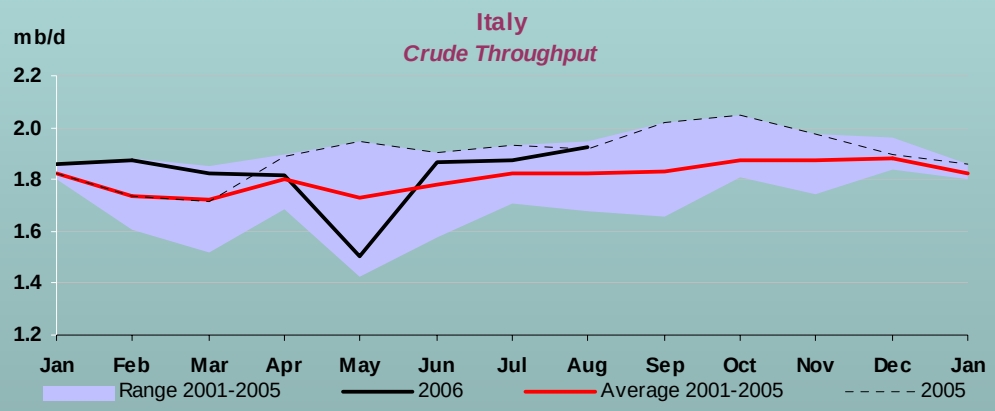
It has become increasingly clear that new product specification and broader environmental regulations have changed the refining landscape around the world. Not only have they led to diverging refinery margins and new trading patterns, but they may also change the way in which we look at spare refinery capacity.

Italy is a case in point. Its spare capacity, as measured by average crude runs compared to nameplate capacity, is notionally the largest in OECD Europe at over 500 kb/d. However, the publication of the 2006 annual report by Italy's Unione Petrolifera provides an insight into the issue of which benchmark one should assess refiners against when considering spare capacity.

Traditionally we have assessed Italian crude throughput against an effective atmospheric distillation capacity of 2,324 kb/d, in line with the *Oil and Gas Journal* and slightly ahead of the *BP Statistical Review of World Energy* assessment of 2,294 kb/d. The Unione Petrolifera report highlights that while total distillation capacity is indeed 118 MT per annum (equivalent to 2,382 kb/d), only 101.9 MT, or 2,058 kb/d, of this capacity is 'supported by secondary units that can produce petrol and gasoil according to specifications'.

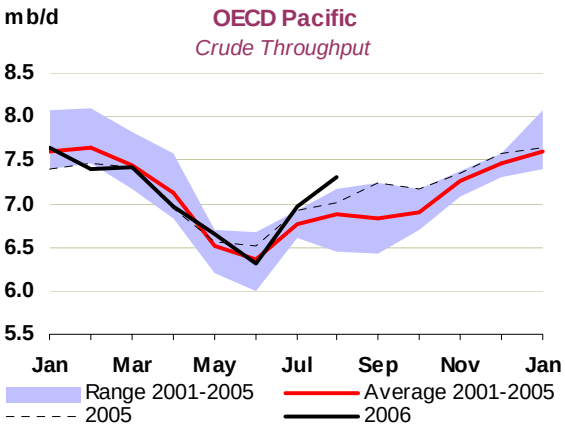
This raises the question of whether nameplate capacity provides an accurate reflection of refineries' flexibility to meet the requirements of the current market conditions. In particular it is questionable whether all CDU capacity can be used to increase production of transportation fuels, given the tight product specifications now prevalent in much of the OECD. Realistically, if refiners have reached the limit of hydrotreating capacity then incremental crude runs would yield at best off-spec product, and possibly merely produce intermediary components which would need further processing by third parties. This in turn suggests significantly lower financial returns for what would effectively be refinery feedstock.

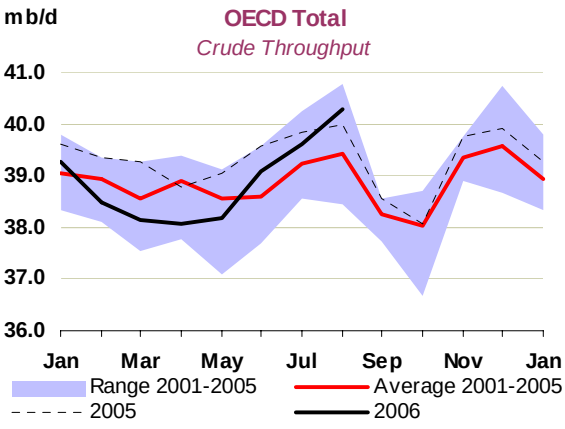
An examination of Italian monthly crude runs shows that the five-year average is 1,821 kb/d, equivalent to a capacity utilisation rate of 78% against the nameplate capacity of 2,324 kb/d. This is a full ten percentage points below the average utilisation rate in the rest of Europe. Assessing runs against the Unione Petrolifera capacity of 2,058 kb/d suggests utilisation of 88%, which is in line with the rest of Europe. Further evidence of domestic refinery constraints is revealed by the maximum monthly throughput achieved in the last five years. These occurred last September and October, when hydroskimming margins were over $2.50/bbl, and runs peaked at 2,047 kb/d.



But, while it would seem reasonable to assess effective Italian spare capacity against the capacity supported by secondary units, this definition would not necessarily be appropriate outside of the region. This report certainly includes much less sophisticated capacity in many developing countries than that operated by Italian refiners, but in Europe, tight product specifications may limit the effectiveness of spare hydroskimming capacity to meet incremental demand for light products.

However, while it is simple to apply such criteria to today's spare capacity, the real difficulty is in assessing the exact point in history that this capacity was no longer readily usable. Maintaining a consistent historical series, while understanding the limitations of such data, is perhaps a more important analytical approach than making an arbitrary adjustment. Better still, market transparency would be improved if other countries, within the OECD and elsewhere, made similar efforts to clarify the extent to which their nominal domestic refining capacity truly reflects industry operating practice.





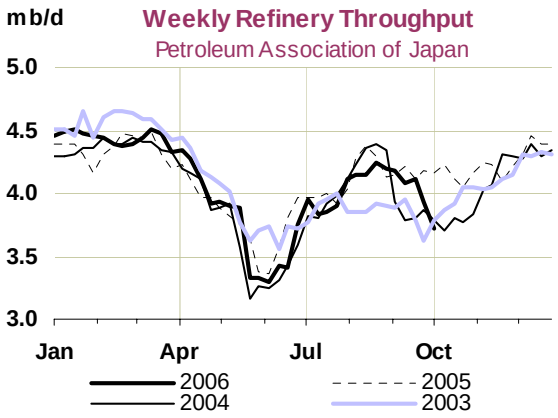
Weekly US data indicate that crude throughput fell towards the end of September as planned maintenance work started again. Having reached 16 mb/d early in the month runs fell to 15.27 mb/d in the last week in September, with the Midwest accounting for much of the drop. Despite this, average crude runs should post only a marginal decline from the August average. Some refiners took the opportunity to expand the scope of work being undertaken in light of the weaker margin environment, and the lull in demand ahead of the peak winter demand season. During the first quarter of 2006 when gasoline stocks increased sharply US refiners demonstrated their ability to manage inventories ahead of a turnaround season and the recent increase in US stocks may indicate the potential for heavier than anticipated work by US refiners, raising the prospect of a counter-seasonal draw in US gasoline stocks in the coming weeks.

OECD Europe

European crude throughput averaged 14.21 mb/d in August, an increase of 330 kb/d from July's upwardly revised (+123 kb/d) level of 13.88 kb/d and broadly in line with August 2005's level. Increases were seen in the UK (+62 kb/d), Italy and Spain (+50 kb/d), France (+89 kb/d) and Germany (+55 kb/d). European refinery runs almost certainly declined in September with the start of autumn maintenance work at several refineries. Industry reports suggest that October should see slightly less offline capacity. However, market reports also highlight several refineries buying ULSD and jet fuel, which provides anecdotal evidence that some refiners who have not publicly announced turnaround programmes are preparing for maintenance work, albeit possibly only on hydrotreating capacity.

OECD Pacific

OECD Pacific crude throughput increased by 342 kb/d in August to average 7.31 mb/d from the downwardly revised (-112 kb/d) July estimate of 6.97 mb/d. The increase was centred in Japan where runs were 4.22 mb/d. The Japanese increase of 375 kb/d from July's downwardly revised (-125 kb/d) level was due to the end of seasonal maintenance and increased throughput in anticipation of peak gasoline demand. The increase is almost exactly in line with our expectations given that Japanese offline capacity was projected to have declined by 376 kb/d month-on-month. However, Japan's August crude runs remain almost 200 kb/d below the three-year high seen in January 2006. Industry reports in August highlighted that some refiners were importing gasoline blending components from Singapore rather than running additional crude during the month, due to weak naphtha and fuel oil cracks and this may have contributed to the shortfall.



Weekly data from the Petroleum Association of Japan show that crude runs dipped in September, reaching 3.72 mb/d at the end of the month, over 500 kb/d below their August peak. Two factors are behind this decline. First the start of autumn maintenance work has had an impact on runs and second, in common with refiners in Singapore,

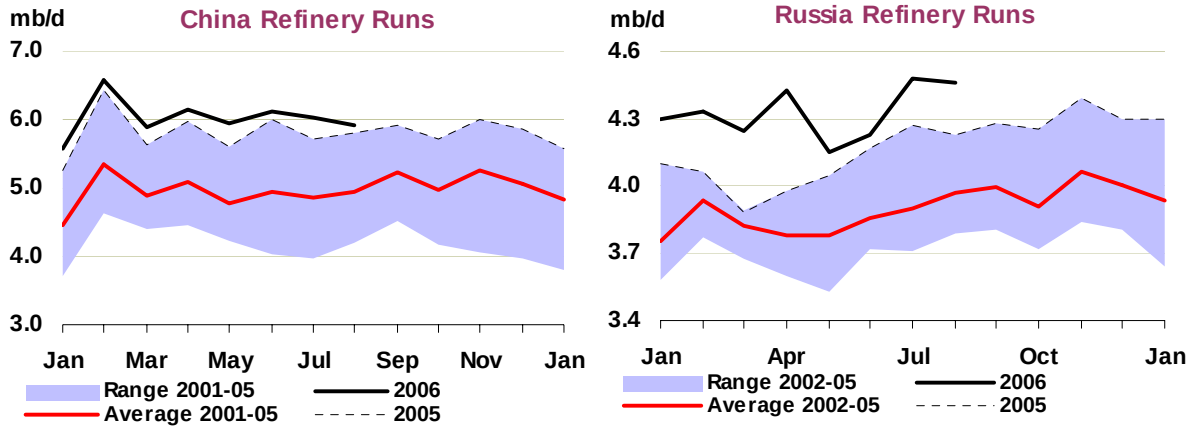
Taiwan and Korea, weak margins have prompted run cuts. Nippon Oil, (which operates about a quarter of Japan's refining capacity) cut runs by 23 kb/d in September and expects to keep runs nearly 300 kb/d below capacity in October. Planned maintenance work may account for almost 250 kb/d of this reduction, suggesting economic runs cuts may account for only around 50 kb/d, or 1% of Japanese refinery capacity.

Korean refinery activity in August dipped by 20 kb/d, to average 2.41 mb/d, some 247 kb/d above the August 2005 level. Industry reports suggest crude run cuts have been implemented at S-Oil's Inchon subsidiary in September and we have assumed these continue at around the 20 kb/d level in October, although recent improvements in hydroskimming margins may allow runs to be increased before the end of the month.

Non-OECD Refinery Throughput

Chinese crude runs in August averaged 5.92 mb/d, which is 100 kb/d lower than in July, but some 3.5% above the August 2005 level. Lower runs at several of PetroChina's refineries due to maintenance work limited increases elsewhere. Hainan refinery has started product exports, with crude runs estimated at around two-thirds of its 160 kb/d capacity. Chinese crude runs are expected to have recovered in September, possibly hitting a new record level, as refiners face strong demand for gasoil related to harvest activities and further increases should be seen over the balance of the year as Hainan reaches full capacity and the Guangzhou refinery brings its second crude unit into service.

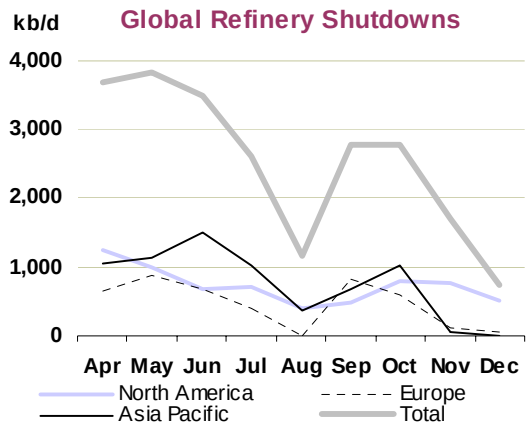
While refiners elsewhere in Asia have cut runs on the back of a weak margin environment, comments from Sinopec highlight the improvement in Chinese refinery economics following the decline in crude prices. Given domestic prices, the refinery netback for light products is around $58/bbl, and Sinopec therefore assesses the breakeven point for its refineries at $55/bbl for benchmark crudes.

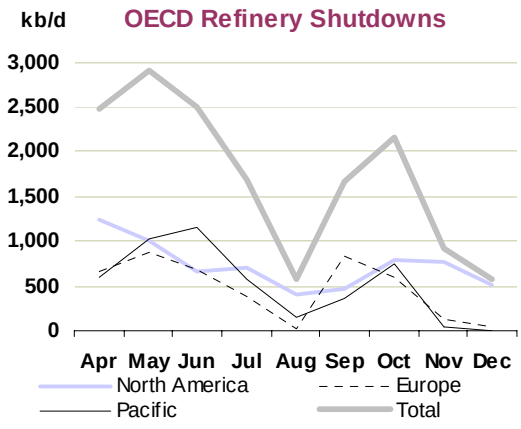


Russian crude runs dipped slightly in August to 4.46 mb/d from July's record level of 4.48 mb/d. The completion of maintenance work at Lukoil's 359 kb/d Nizhny Novgorod refinery allowed the plant to increase crude runs by 80 kb/d, while lower runs at Surgutneftagaz's Kirishi refinery and the Niznehamsk refinery suggests maintenance has started at these locations.

Offline Refinery Capacity

Offline capacity estimates have been increased for the fourth quarter following the announcement of run cuts in Asia and the inclusion of previously unannounced work. August remains the low point for maintenance so far this year. However, the rapid increase in work, both within the OECD and elsewhere, is likely to tighten product markets over the coming weeks. Voluntary run cuts in Asia are also expected to curb supply in October. Reports indicate that ExxonMobil's 600 kb/d Singapore refinery has cut runs by around 8% to minimise naphtha production given weak naphtha cracks in the region as Indian refiners have increased exports recently. Global offline capacity is now expected to reach 2.8 mb/d in October up from 2.5 mb/d last month. The estimate for OECD offline distillation capacity has been revised up for October, to 2.2 mb/d from 1.9 mb/d last month.





OECD Refinery Yields

OECD refinery yield data for July point to gasoline and jet yields remaining under pressure and continued strength in middle distillate production at the expense of the former grades. North American gasoline yields slipped to 45% in July, from the 2006 high of 46% reached in June. Gasoline yields remain well above the lows reached in April due to heavy spring maintenance work. Elsewhere in the OECD weaker-than-average yields continue to be seen in Europe and the Pacific. Jet/kero yields have recovered to 8.9% in North America, having fallen to 8.4% in May, as refiners have moved away from maximising gasoil/diesel yields ahead of the introduction of ULSD in June. Jet/kero yields in the Pacific have moved above their five-year range in July, supported by high jet/kero production in Japan and Korea, reaching 15.1% for the region as a whole.

North American gasoil/diesel production continues to run well above five-year average and prior year levels with gains in Mexico, Canada and the US. This has boosted North American gasoil/diesel yields to 26.7%, some 1.4% above the five-year average and raised average OECD gasoil/diesel yields to 31.6%.

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

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	24.5	25.4	25.6	25.3	25.5	25.4	25.5	25.1	25.1	25.5	26.0	25.4	25.7	25.4	25.8	26.1	25.7
Europe	15.4	15.5	15.6	15.1	15.6	15.6	15.5	15.7	15.0	15.4	15.7	15.5	15.5	15.1	15.5	15.7	15.4
Pacific	8.6	8.5	9.4	8.1	8.1	8.8	8.6	9.3	7.9	8.0	8.9	8.5	9.2	7.9	8.1	8.9	8.5
Total OECD	48.6	49.3	50.6	48.5	49.1	49.9	49.5	50.1	48.0	49.0	50.6	49.4	50.5	48.4	49.4	50.6	49.7
NON-OECD DEMAND																	
FSU	3.6	3.8	3.8	3.7	3.8	3.9	3.8	3.9	3.7	3.9	4.1	3.9	4.0	3.7	3.9	4.1	3.9
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	5.6	6.5	6.6	6.5	6.7	6.8	6.6	6.8	7.1	7.1	7.2	7.0	7.2	7.4	7.5	7.6	7.4
Other Asia	8.1	8.6	8.9	8.9	8.7	8.7	8.8	8.9	8.9	8.7	9.0	8.9	9.1	9.1	9.0	9.2	9.1
Latin America	4.7	5.0	5.0	5.1	5.2	5.1	5.1	5.1	5.2	5.3	5.2	5.2	5.2	5.3	5.4	5.3	5.3
Middle East	5.4	5.8	6.0	6.1	6.3	6.1	6.1	6.4	6.4	6.7	6.4	6.5	6.7	6.7	7.0	6.7	6.8
Africa	2.7	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	30.7	33.1	34.0	33.8	34.1	34.2	34.0	34.7	35.0	35.2	35.6	35.1	36.0	36.1	36.4	36.7	36.3
Total Demand[1]	79.3	82.4	84.6	82.4	83.2	84.0	83.5	84.9	83.0	84.2	86.2	84.6	86.5	84.5	85.8	87.4	86.0
OECD SUPPLY																	
North America	14.6	14.6	14.4	14.6	13.7	13.6	14.1	14.2	14.2	14.2	14.3	14.2	14.6	14.3	14.1	14.3	14.3
Europe	6.3	6.1	5.9	5.7	5.4	5.5	5.6	5.5	5.1	5.1	5.4	5.3	5.5	5.3	5.2	5.4	5.4
Pacific	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.7	0.6	0.7	0.7	0.7
Total OECD	21.6	21.2	20.9	20.9	19.7	19.7	20.3	20.2	19.8	19.9	20.4	20.1	20.8	20.2	20.0	20.4	20.4
NON-OECD SUPPLY																	
FSU	10.3	11.2	11.5	11.5	11.7	11.9	11.6	11.7	12.0	12.2	12.3	12.1	12.4	12.5	12.6	12.8	12.6
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Other Asia	2.6	2.7	2.7	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.7
Latin America	4.0	4.1	4.2	4.4	4.3	4.3	4.3	4.4	4.4	4.5	4.7	4.5	4.7	4.6	4.7	4.9	4.7
Middle East	2.0	1.9	1.9	1.9	1.9	1.8	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Africa	3.0	3.4	3.5	3.6	3.8	3.9	3.7	4.0	3.9	4.1	4.2	4.0	4.3	4.4	4.6	4.8	4.5
Total Non-OECD	25.6	27.0	27.5	27.7	28.2	28.5	28.0	28.4	28.6	29.0	29.5	28.9	29.7	29.9	30.3	30.7	30.1
Processing Gains[2]	1.8	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Other Biofuels[3]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Total Non-OPEC[4]	49.1	50.1	50.4	50.5	49.8	50.1	50.2	50.7	50.5	51.0	51.9	51.0	52.7	52.3	52.4	53.3	52.7
OPEC																	
Crude[5]	27.1	28.9	29.3	29.8	30.0	29.9	29.8	29.9	29.8	30.0							
NGLs	3.7	4.2	4.4	4.4	4.5	4.5	4.5	4.6	4.7	4.7	4.8	4.7	4.8	4.8	4.9	5.0	4.9
Total OPEC	30.8	33.1	33.7	34.2	34.5	34.5	34.2	34.5	34.5	34.8							
Total Supply[6]	79.8	83.2	84.1	84.8	84.4	84.6	84.5	85.2	84.9	85.7							
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.1	0.1	-0.1	0.9	0.2	-0.6	0.1	0.0	0.6								
Government	0.2	0.1	0.1	0.3	0.0	-0.1	0.1	0.0	0.1								
Total	0.3	0.2	0.0	1.2	0.2	-0.6	0.2	0.0	0.7								
Floating Storage/Oil in Transit	0.2	0.0	-0.4	0.1	0.0	0.1	-0.1	0.1	-0.1								
Miscellaneous to balance[7]	0.1	0.5	-0.1	1.0	1.0	1.1	0.8	0.1	1.3								
Total Stock Ch. & Misc	0.5	0.8	-0.5	2.4	1.2	0.5	0.9	0.3	1.9	1.5							
Memo items:																	
Call on OPEC crude + Stock ch.[8]	26.6	28.1	29.7	27.4	28.9	29.4	28.9	29.6	27.9	28.5	29.5	28.9	29.0	27.4	28.4	29.0	28.5
Total Demand ex. FSU	75.7	78.7	80.7	78.7	79.4	80.2	79.7	81.0	79.3	80.3	82.1	80.7	82.5	80.8	81.9	83.2	82.1
Total demand exc. FSU (% ch)[9]	1.9	3.9	2.3	1.6	1.5	0.1	1.4	0.3	0.8	1.1	2.4	1.2	1.9	1.8	2.0	1.4	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 Biofuels from sources outside Brazil and US.
4 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
5 As of the March 2006 OMR, Venezuelan Orinoco heavy crude production is included within Venezuelan crude estimates. Orimulsion fuel remains within the OPEC NGL & non-conventional category.
6 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
7 Includes changes in non-reported stocks in OECD and non-OECD areas
8 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
9 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)

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1	-0.2
Europe	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-0.2	-0.1	-0.1	-0.1	-0.3	-0.2	-0.1	-0.2
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-0.1	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-	-	-	-	-	0.1	-	-0.1	-
Total Demand	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1	0.1	-0.1	-0.1	-0.2	-0.1
Europe	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	0.1	-	0.1	-0.1	-0.1	-0.1	-
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-0.1	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Biofuels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-0.1	-	-	0.1	-0.1	-0.3	-0.2	-0.2
OPEC																	
Crude	-	-	-	-	-	-	-	-	-								
NGLs	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-0.1	-0.1	-0.1	-0.1
Total OPEC	-	-	-	-	-	-	-	-	-								
Total Supply	-	-	-	-	-	-	-	-	-								
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	-	-	-	0.1								
Government	-	-	-	-	-	-	-	-	-								
Total	-	-	-	-	-	-	-	-	0.1								
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-								
Miscellaneous to balance	-	-	0.1	0.1	0.1	0.1	0.1	-	-0.1								
Total Stock Ch. & Misc	-	-	-	0.1	0.1	0.1	0.1	-	-								
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-	-0.1	-0.1	-0.1	-0.1	-	-	-0.2	-	-	-0.1	-	0.2	0.1	0.1
Total Demand ex. FSU	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1	-0.1	-0.2	-0.3	-0.3	-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

	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)																
North America	25.37	25.57	25.34	25.50	25.43	25.46	25.11	25.09	25.55	25.98	25.44	25.71	25.41	25.80	26.06	25.75
Europe	15.48	15.59	15.15	15.55	15.64	15.48	15.72	15.04	15.41	15.71	15.47	15.54	15.06	15.49	15.68	15.44
Pacific	8.49	9.45	8.06	8.07	8.79	8.59	9.30	7.87	8.04	8.95	8.54	9.22	7.91	8.08	8.88	8.52
Total OECD	49.35	50.60	48.55	49.13	49.86	49.53	50.13	48.00	49.00	50.64	49.44	50.47	48.38	49.37	50.61	49.71
FSU	3.76	3.82	3.71	3.79	3.89	3.80	3.88	3.72	3.89	4.10	3.90	3.96	3.71	3.91	4.12	3.93
Europe	0.70	0.77	0.71	0.66	0.72	0.72	0.79	0.72	0.67	0.73	0.73	0.79	0.74	0.68	0.74	0.74
China	6.45	6.58	6.46	6.65	6.79	6.62	6.77	7.08	7.13	7.19	7.04	7.20	7.43	7.51	7.58	7.43
Other Asia	8.63	8.90	8.86	8.65	8.73	8.79	8.88	8.94	8.73	8.96	8.88	9.12	9.13	8.96	9.20	9.10
Latin America	4.96	4.96	5.12	5.19	5.10	5.09	5.07	5.20	5.27	5.22	5.19	5.16	5.31	5.42	5.32	5.30
Middle East	5.80	6.03	6.05	6.33	6.06	6.12	6.37	6.38	6.65	6.40	6.45	6.70	6.73	7.01	6.74	6.80
Africa	2.79	2.90	2.91	2.79	2.90	2.88	2.97	2.98	2.86	2.97	2.94	3.05	3.04	2.93	3.05	3.02
Total Non-OECD	33.09	33.97	33.84	34.06	34.18	34.01	34.73	35.03	35.19	35.57	35.13	35.99	36.09	36.42	36.74	36.31
World	82.43	84.57	82.39	83.19	84.04	83.54	84.86	83.02	84.19	86.21	84.57	86.46	84.47	85.79	87.35	86.02
of which:																
US50	*20.73*	*20.80*	*20.66*	*20.86*	*20.75*	*20.77*	*20.48*	*20.60*	*20.89*	*21.17*	*20.79*	*20.97*	*20.80*	*21.08*	*21.20*	*21.01*
Euro4	*8.27*	*8.25*	*7.94*	*8.24*	*8.19*	*8.15*	*8.37*	*7.90*	*8.08*	*8.20*	*8.14*	*8.24*	*7.87*	*8.11*	*8.16*	*8.10*
Japan	*5.29*	*6.00*	*4.94*	*5.03*	*5.46*	*5.35*	*5.96*	*4.78*	*4.94*	*5.52*	*5.30*	*5.80*	*4.75*	*4.93*	*5.46*	*5.23*
Korea	*2.16*	*2.40*	*2.07*	*2.01*	*2.23*	*2.18*	*2.28*	*2.03*	*2.03*	*2.32*	*2.16*	*2.34*	*2.08*	*2.07*	*2.31*	*2.20*
Mexico	*2.00*	*2.04*	*2.11*	*2.06*	*2.10*	*2.08*	*2.08*	*2.01*	*2.03*	*2.16*	*2.07*	*2.11*	*2.07*	*2.09*	*2.17*	*2.11*
Canada	*2.30*	*2.36*	*2.24*	*2.24*	*2.23*	*2.27*	*2.18*	*2.15*	*2.28*	*2.29*	*2.22*	*2.25*	*2.19*	*2.28*	*2.31*	*2.26*
Brazil	*2.15*	*2.12*	*2.18*	*2.25*	*2.21*	*2.19*	*2.17*	*2.19*	*2.27*	*2.26*	*2.22*	*2.21*	*2.25*	*2.34*	*2.30*	*2.27*
India	*2.58*	*2.73*	*2.60*	*2.48*	*2.57*	*2.59*	*2.74*	*2.70*	*2.52*	*2.66*	*2.66*	*2.84*	*2.75*	*2.59*	*2.72*	*2.72*
Annual Change (% per annum)																
North America	3.5	1.2	1.1	0.2	-1.1	0.3	-1.8	-1.0	0.2	2.1	-0.1	2.4	1.3	1.0	0.3	1.2
Europe	0.3	0.5	0.6	0.5	-1.6	0.0	0.9	-0.7	-0.9	0.5	-0.1	-1.2	0.1	0.5	-0.2	-0.2
Pacific	-1.6	2.3	2.3	-0.5	0.6	1.2	-1.6	-2.4	-0.4	1.8	-0.6	-0.9	0.6	0.5	-0.8	-0.2
Total OECD	1.5	1.2	1.1	0.2	-1.0	0.4	-0.9	-1.1	-0.3	1.6	-0.2	0.7	0.8	0.8	-0.1	0.5
FSU	4.7	8.7	-0.2	0.0	-2.7	1.3	1.6	0.1	2.6	5.2	2.4	2.1	-0.1	0.6	0.5	0.8
Europe	2.2	2.1	2.1	1.7	1.6	1.9	2.5	1.4	1.6	1.6	1.8	0.7	1.7	1.8	1.4	1.4
China	15.8	4.5	-1.3	5.0	2.5	2.6	2.9	9.6	7.2	5.9	6.4	6.4	4.9	5.3	5.5	5.5
Other Asia	6.9	4.3	2.4	2.5	-1.6	1.8	-0.2	0.9	0.9	2.7	1.1	2.6	2.1	2.7	2.6	2.5
Latin America	5.9	3.1	3.0	2.4	2.1	2.7	2.2	1.5	1.6	2.3	1.9	1.8	2.2	2.9	1.9	2.2
Middle East	6.9	5.8	5.8	5.3	5.4	5.6	5.5	5.4	5.1	5.6	5.4	5.3	5.4	5.3	5.4	5.4
Africa	4.1	3.3	3.3	2.5	2.7	3.0	2.4	2.3	2.4	2.4	2.4	2.7	2.1	2.4	2.5	2.4
Total Non-OECD	7.7	4.8	2.1	3.2	1.2	2.8	2.2	3.5	3.3	4.0	3.3	3.6	3.0	3.5	3.3	3.4
World	4.0	2.6	1.5	1.4	-0.1	1.3	0.4	0.8	1.2	2.6	1.2	1.9	1.7	1.9	1.3	1.7
Annual Change (mb/d)																
North America	0.85	0.31	0.27	0.06	-0.28	0.09	-0.45	-0.24	0.04	0.55	-0.03	0.60	0.32	0.25	0.08	0.31
Europe	0.05	0.08	0.09	0.08	-0.26	0.00	0.14	-0.11	-0.14	0.08	-0.01	-0.18	0.02	0.08	-0.04	-0.03
Pacific	-0.14	0.21	0.18	-0.04	0.06	0.10	-0.15	-0.19	-0.04	0.16	-0.05	-0.08	0.04	0.04	-0.07	-0.02
Total OECD	0.75	0.59	0.54	0.10	-0.48	0.18	-0.47	-0.55	-0.13	0.78	-0.09	0.33	0.38	0.38	-0.03	0.26
FSU	0.17	0.31	-0.01	0.00	-0.11	0.05	0.06	0.00	0.10	0.20	0.09	0.08	0.00	0.02	0.02	0.03
Europe	0.02	0.02	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
China	0.88	0.28	-0.09	0.31	0.16	0.17	0.19	0.62	0.48	0.40	0.42	0.43	0.35	0.38	0.39	0.39
Other Asia	0.56	0.37	0.20	0.21	-0.14	0.16	-0.02	0.08	0.07	0.24	0.09	0.23	0.19	0.24	0.24	0.22
Latin America	0.28	0.15	0.15	0.12	0.11	0.13	0.11	0.07	0.08	0.12	0.10	0.09	0.11	0.15	0.10	0.11
Middle East	0.37	0.33	0.33	0.32	0.31	0.32	0.33	0.33	0.32	0.34	0.33	0.34	0.35	0.35	0.34	0.35
Africa	0.11	0.09	0.09	0.07	0.08	0.08	0.07	0.07	0.07	0.07	0.07	0.08	0.06	0.07	0.07	0.07
Total Non-OECD	2.38	1.54	0.70	1.05	0.42	0.93	0.76	1.18	1.13	1.38	1.12	1.26	1.07	1.23	1.18	1.18
World	3.13	2.14	1.25	1.15	-0.06	1.11	0.30	0.64	0.99	2.17	1.03	1.59	1.44	1.61	1.15	1.45
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-	-	-	-	-	-0.01	-0.18	-0.09	-0.07	-0.10	-0.24	-0.20	-0.08	-0.15
Europe	-	0.01	-	-	-	-	-	-	0.05	-0.01	0.01	-	-0.02	-0.03	-0.02	-0.01
Pacific	-	-	-	-	-	-	-0.01	-	-0.08	-	-0.02	-0.03	-0.02	-0.02	-0.02	-0.02
Total OECD	-	0.01	-	-	-	-	-0.01	-0.01	-0.21	-0.10	-0.08	-0.13	-0.27	-0.25	-0.12	-0.19
FSU	-	-	-	-	-	-	-	-	0.05	0.07	0.03	0.03	0.03	0.03	0.03	0.03
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-0.03	0.01	-0.01	0.02	0.05	0.01	-0.10	-
Other Asia	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-	-0.02	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Latin America	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-	-0.03	-	-0.01	-	-	-	-	-
Middle East	-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	-0.02
Africa	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Total Non-OECD	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.04	0.03	-0.03	0.02	0.05	-	-0.10	-0.01
World	-0.05	-0.04	-0.05	-0.05	-0.05	-0.05	-0.06	-0.06	-0.25	-0.06	-0.11	-0.11	-0.22	-0.25	-0.22	-0.20
Revisions to Oil Demand Growth from Last Month's Report (mb/d)																
World	-0.05	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01	-0.20	-0.01	-0.06	-0.05	-0.16	0.01	-0.16	-0.09

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2005	2006	2007	2Q06	3Q06	4Q06	1Q07	2Q07	Jul 06	Aug 06	Sep 06
OPEC											
Crude Oil											
Saudi Arabia	9.06			9.02	9.00				9.07	9.02	8.91
Iran	3.88			3.78	4.05				4.25	4.00	3.90
Iraq	1.81			1.99	2.04				2.06	2.00	2.05
UAE	2.46			2.63	2.65				2.67	2.65	2.65
Kuwait	2.13			2.22	2.20				2.19	2.20	2.21
Neutral Zone	0.58			0.58	0.57				0.57	0.57	0.58
Qatar	0.80			0.82	0.83				0.84	0.84	0.82
Nigeria	2.40			2.19	2.24				2.26	2.27	2.19
Libya	1.64			1.70	1.73				1.72	1.72	1.75
Algeria	1.34			1.36	1.34				1.33	1.33	1.35
Venezuela	2.71			2.61	2.51				2.47	2.52	2.55
Indonesia	0.94			0.91	0.87				0.89	0.86	0.87
Total Crude Oil	29.76			29.80	30.03				30.30	29.97	29.81
Total NGLs[1]	4.46	4.69	4.89	4.66	4.72	4.75	4.79	4.82	4.73	4.73	4.70
Total OPEC	34.23			34.46	34.75				35.03	34.70	34.51
NON-OPEC[2]											
OECD											
North America	14.09	14.21	14.35	14.18	14.17	14.33	14.62	14.31	14.24	14.22	14.04
United States	7.27	7.32	7.40	7.36	7.37	7.35	7.54	7.50	7.46	7.35	7.29
Mexico	3.76	3.70	3.59	3.77	3.67	3.59	3.60	3.60	3.68	3.70	3.63
Canada	3.06	3.19	3.36	3.05	3.13	3.38	3.48	3.21	3.10	3.18	3.12
Europe	5.60	5.30	5.35	5.13	5.10	5.44	5.51	5.29	5.22	5.02	5.07
UK	1.83	1.70	1.73	1.66	1.57	1.73	1.85	1.72	1.60	1.48	1.63
Norway	2.97	2.84	2.87	2.70	2.80	2.94	2.90	2.81	2.87	2.77	2.75
Others	0.80	0.76	0.76	0.77	0.74	0.76	0.76	0.75	0.76	0.77	0.69
Pacific	0.58	0.56	0.65	0.50	0.61	0.63	0.66	0.64	0.63	0.60	0.61
Australia	0.54	0.52	0.61	0.46	0.57	0.59	0.62	0.60	0.59	0.56	0.57
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	20.28	20.08	20.35	19.82	19.89	20.39	20.79	20.23	20.10	19.84	19.72
NON-OECD											
Former USSR	11.64	12.07	12.60	12.02	12.22	12.30	12.42	12.55	12.19	12.30	12.16
Russia	9.48	9.72	10.01	9.67	9.80	9.89	9.91	9.98	9.75	9.83	9.82
Others	2.16	2.34	2.59	2.35	2.42	2.41	2.51	2.56	2.44	2.47	2.34
Asia	6.30	6.40	6.46	6.38	6.38	6.43	6.45	6.44	6.42	6.32	6.41
China	3.62	3.70	3.73	3.70	3.70	3.72	3.72	3.72	3.71	3.69	3.72
Malaysia	0.77	0.74	0.74	0.71	0.74	0.73	0.74	0.73	0.74	0.74	0.73
India	0.78	0.79	0.80	0.79	0.78	0.80	0.80	0.80	0.80	0.76	0.78
Others	1.13	1.18	1.19	1.18	1.16	1.18	1.19	1.19	1.18	1.14	1.18
Europe	0.16	0.15	0.13	0.15	0.14	0.14	0.14	0.14	0.15	0.14	0.14
Latin America	4.30	4.48	4.74	4.42	4.47	4.67	4.69	4.65	4.46	4.43	4.53
Brazil	1.99	2.15	2.40	2.08	2.12	2.33	2.34	2.31	2.11	2.08	2.19
Argentina	0.78	0.77	0.76	0.78	0.77	0.76	0.76	0.76	0.77	0.77	0.77
Colombia	0.53	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54
Ecuador	0.53	0.55	0.56	0.55	0.55	0.56	0.56	0.56	0.55	0.55	0.55
Others	0.47	0.48	0.48	0.47	0.48	0.48	0.49	0.48	0.48	0.48	0.48
Middle East[3]	1.86	1.75	1.69	1.75	1.73	1.71	1.71	1.70	1.74	1.73	1.72
Oman	0.79	0.74	0.71	0.74	0.73	0.72	0.71	0.71	0.73	0.73	0.73
Syria	0.46	0.42	0.38	0.42	0.41	0.40	0.39	0.38	0.42	0.41	0.41
Yemen	0.42	0.40	0.41	0.39	0.39	0.39	0.42	0.41	0.40	0.39	0.39
Africa	3.72	4.03	4.53	3.88	4.09	4.21	4.31	4.41	4.02	4.08	4.16
Egypt	0.70	0.69	0.68	0.68	0.69	0.69	0.69	0.68	0.69	0.69	0.69
Angola	1.25	1.42	1.72	1.33	1.45	1.45	1.53	1.60	1.46	1.45	1.45
Gabon	0.23	0.23	0.23	0.24	0.23	0.23	0.23	0.23	0.23	0.23	0.23
Others	1.54	1.69	1.90	1.63	1.71	1.83	1.86	1.90	1.63	1.70	1.79
Total Non-OECD	27.97	28.87	30.15	28.59	29.04	29.46	29.72	29.88	28.98	29.00	29.13
Processing Gains[4]	1.86	1.90	1.92	1.89	1.88	1.92	1.92	1.92	1.88	1.88	1.88
Other Biofuels[5]	0.12	0.15	0.26	0.15	0.15	0.15	0.26	0.26	0.15	0.15	0.15
TOTAL NON-OPEC	50.23	51.00	52.68	50.45	50.95	51.92	52.69	52.29	51.10	50.87	50.87
TOTAL SUPPLY	84.46			84.92	85.70				86.13	85.57	85.39

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Venezuelan Orimulsion (but not Orinoco 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
5 Comprises Fuel Ethanol and Biodiesel supply from outside Brazil and US.

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			
	Apr2006	May2006	Jun2006	Jul2006	Aug2006*	Aug2003	Aug2004	Aug2005	3Q2005	4Q2005	1Q2006	2Q2006
North America												
Crude	475.5	461.7	456.9	457.9	452.0	390.6	390.5	421.2	-0.15	0.25	0.08	-0.07
Motor Gasoline	236.3	242.3	241.6	238.1	235.8	222.4	237.9	222.8	-0.19	0.08	0.08	-0.01
Middle Distillate	190.1	195.9	199.9	209.8	218.9	199.6	203.9	212.5	0.08	0.16	-0.21	0.06
Residual Fuel Oil	49.2	49.7	52.3	52.2	52.5	39.0	44.6	41.3	-0.04	0.03	0.07	0.02
Total Products[3]	632.9	658.4	669.2	687.2	700.3	644.1	665.7	673.6	-0.16	-0.06	-0.25	0.37
Total[4]	1251.0	1267.5	1274.0	1301.0	1309.6	1191.2	1212.7	1248.7	-0.19	-0.02	-0.18	0.38
Europe												
Crude	334.4	345.7	336.8	348.9	347.8	329.3	327.9	334.9	0.01	-0.12	0.20	-0.08
Motor Gasoline	105.6	104.1	100.6	98.4	98.2	108.5	114.0	105.2	0.02	0.08	-0.02	-0.12
Middle Distillate	262.1	260.5	254.9	261.4	260.5	258.4	260.8	257.9	0.18	-0.03	-0.11	0.09
Residual Fuel Oil	76.2	73.5	75.7	75.6	73.7	69.6	77.6	73.5	0.05	-0.03	-0.04	0.06
Total Products[3]	545.1	540.2	532.3	539.8	536.2	544.8	556.3	539.4	0.24	0.05	-0.18	0.03
Total[4]	955.8	960.4	942.6	964.3	958.8	943.7	952.2	947.2	0.30	-0.12	0.05	-0.07
Pacific												
Crude	170.9	185.5	181.1	176.1	172.9	176.3	167.5	181.9	-0.09	-0.12	0.15	0.11
Motor Gasoline	24.5	24.8	24.6	23.4	23.9	25.4	23.3	22.9	-0.02	0.00	0.02	0.00
Middle Distillate	58.0	67.0	69.8	75.4	81.7	78.7	69.6	73.8	0.21	-0.18	-0.01	0.10
Residual Fuel Oil	22.4	24.5	23.1	25.1	25.0	25.3	23.3	23.5	0.01	-0.04	-0.01	0.04
Total Products[3]	170.3	180.5	183.1	192.5	204.6	202.1	182.2	187.9	0.20	-0.26	0.00	0.17
Total[4]	412.3	438.1	435.5	440.4	458.9	451.7	421.6	442.3	0.11	-0.42	0.16	0.30
Total OECD												
Crude	980.8	992.8	974.8	982.9	972.8	896.3	886.0	938.0	-0.23	0.01	0.42	-0.04
Motor Gasoline	366.5	371.2	366.8	360.0	357.9	356.2	375.1	350.8	-0.19	0.16	0.08	-0.12
Middle Distillate	510.2	523.4	524.6	546.6	561.0	536.7	534.3	544.2	0.46	-0.05	-0.32	0.26
Residual Fuel Oil	147.8	147.7	151.1	152.8	151.1	133.9	145.5	138.3	0.01	-0.04	0.01	0.13
Total Products[3]	1348.3	1379.1	1384.6	1419.5	1441.1	1390.9	1404.1	1400.9	0.28	-0.27	-0.43	0.57
Total[4]	2619.1	2666.1	2652.1	2705.7	2727.3	2586.6	2586.5	2638.3	0.22	-0.55	0.03	0.61

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			
	Apr2006	May2006	Jun2006	Jul2006	Aug2006*	Aug2003	Aug2004	Aug2005	3Q2005	4Q2005	1Q2006	2Q2006
North America												
Crude	687.9	688.6	687.9	687.9	687.6	618.3	669.0	700.7	-0.03	-0.10	0.02	0.02
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	171.0	171.9	173.4	174.5	174.5	152.0	158.1	165.6	0.02	0.01	0.04	0.04
Products	233.5	233.1	236.3	235.8	235.8	210.8	208.2	239.3	0.03	0.02	-0.03	0.00
Pacific												
Crude	380.5	380.5	380.9	382.2	382.2	382.8	386.7	383.5	-0.01	-0.01	-0.01	0.00
Products	11.4	11.7	11.8	11.8	11.9	10.3	11.0	11.5	0.00	0.00	0.00	0.00
Total OECD												
Crude	1239.3	1241.0	1242.1	1244.6	1244.3	1153.1	1213.7	1249.9	-0.03	-0.10	0.04	0.06
Products	246.9	246.8	250.1	249.7	249.7	223.1	221.2	252.7	0.03	0.02	-0.04	0.01
Total[4]	1487.2	1488.7	1493.2	1495.3	1495.0	1377.1	1435.9	1503.6	0.00	-0.08	0.01	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 June 2005		End September 2005		End December 2005		End March 2006		End June 2006 [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	164.7	73	170.5	77	178.1	82	169.7	79	168.0	-
Mexico	45.6	22	52.8	25	43.9	21	41.7	21	42.1	-
United States[4]	1740.5	84	1707.4	82	1697.9	83	1693.7	83	1731.6	-
Total[4]	1972.9	78	1952.9	77	1942.0	78	1927.2	77	1963.8	77
Pacific										
Australia	35.7	40	34.1	37	32.7	36	35.5	39	38.9	-
Japan	629.4	125	637.9	117	612.1	103	620.1	130	627.2	-
Korea	142.5	71	145.4	65	134.9	59	137.4	68	155.4	-
New Zealand	9.0	62	7.9	48	7.2	44	6.8	45	6.7	-
Total	816.6	101	825.3	94	786.8	85	799.8	102	828.2	103
Europe[5]										
Austria	20.2	66	19.8	68	20.4	72	18.7	66	19.2	-
Belgium	27.8	57	30.3	51	28.6	45	27.3	53	28.5	-
Czech Republic	15.9	70	16.7	79	18.8	98	19.6	90	19.5	-
Denmark	17.2	96	20.5	111	20.3	102	19.5	99	20.4	-
Finland	27.0	122	27.3	123	25.1	113	26.7	120	30.5	-
France	185.6	93	191.4	97	195.6	93	196.2	104	188.7	-
Germany	279.5	102	275.8	105	282.6	111	279.9	110	281.4	-
Greece	32.6	85	34.6	75	33.1	69	35.4	94	35.1	-
Hungary	17.0	105	17.1	104	17.6	120	20.8	127	17.6	-
Ireland	11.6	63	13.2	65	11.6	55	13.1	72	12.6	-
Italy	132.1	78	137.0	77	132.0	71	131.5	81	126.0	-
Luxembourg	0.8	13	0.8	12	0.8	11	0.9	15	1.0	-
Netherlands	116.6	114	115.7	115	116.4	116	120.5	121	123.1	-
Norway	21.0	98	30.2	108	30.7	123	21.9	91	21.8	-
Poland	34.5	70	33.8	69	35.2	79	35.5	74	35.7	-
Portugal	26.5	78	26.8	82	25.7	78	24.7	83	24.7	-
Slovak Republic	6.4	80	5.1	59	6.5	83	8.3	102	7.7	-
Spain	129.4	82	131.7	84	128.6	79	130.2	84	129.2	-
Sweden	35.4	100	34.6	95	38.0	102	38.4	109	39.6	-
Switzerland	38.0	134	38.9	137	37.7	128	37.7	147	39.3	-
Turkey	52.2	76	50.8	81	51.2	100	51.6	79	51.6	-
United Kingdom	102.3	57	108.7	60	95.6	52	97.8	53	100.0	-
Total	1329.6	85	1360.8	87	1351.8	86	1356.4	90	1353.3	88
Total OECD	4119.1	84	4138.9	83	4080.6	82	4083.4	85	4145.3	85
DAYS OF IEA Net Imports[6]	-	116	-	116	-	114	-	115	-	116

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 2006 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]*		
2Q2003	3916	1365	2551	81	28	53
3Q2003	3983	1383	2600	80	28	53
4Q2003	3928	1411	2517	79	28	50
1Q2004	3888	1423	2465	81	30	51
2Q2004	3974	1429	2545	81	29	52
3Q2004	4016	1435	2581	80	29	51
4Q2004	4001	1450	2551	79	29	51
1Q2005	4005	1462	2543	83	30	53
2Q2005	4119	1494	2625	84	30	54
3Q2005	4139	1494	2645	83	30	53
4Q2005	4081	1487	2594	82	30	52
1Q2006	4083	1487	2596	85	31	54
2Q2006	4145	1493	2652	85	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 2Q2006 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2003	2004	2005	3Q05	4Q05	1Q06	2Q06	May 06	Jun 06	Jul 06	Year Earlier Jul 05	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.55	0.46	0.41	0.52	0.51	0.68	0.82	0.57	0.62	0.59	0.03
Europe	1.00	1.03	0.90	0.92	0.91	0.83	0.80	0.83	0.84	0.66	0.83	-0.17
Pacific	1.18	1.24	1.31	1.25	1.37	1.40	1.33	1.25	1.20	1.28	1.24	0.03
Saudi Medium												
North America	0.83	0.80	0.81	0.58	0.81	0.65	0.61	0.60	0.50	0.67	0.76	-0.09
Europe	0.11	0.11	0.16	0.20	0.16	0.17	0.14	0.12	0.15	0.13	0.24	-0.11
Pacific	0.24	0.23	0.26	0.27	0.32	0.38	0.35	0.34	0.35	0.36	0.25	0.11
Saudi Heavy												
North America	0.30	0.22	0.17	0.20	0.16	0.21	0.21	0.14	0.28	0.18	0.26	-0.08
Europe	0.19	0.23	0.23	0.27	0.26	0.14	0.22	0.17	0.25	0.22	0.21	0.01
Pacific	0.16	0.15	0.25	0.26	0.29	0.25	0.20	0.20	0.19	0.20	0.21	-0.02
Iraqi Basrah Light[2]												
North America	0.44	0.71	0.60	0.56	0.59	0.44	0.60	0.56	0.72	0.60	0.85	-0.25
Europe	0.09	0.21	0.23	0.24	0.31	0.24	0.29	0.32	0.23	0.37	0.31	0.06
Pacific	0.03	0.12	0.06	0.06	0.06	0.08	0.09	..	0.14	0.03	0.06	-0.03
Iraqi Kirkuk												
North America	0.06	0.02	..	..	..	..	..	..	..	..	..	..
Europe	0.12	0.08	0.05	0.13	0.03	..	..	..	..	0.06	0.14	-0.08
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.19	0.24	0.20	0.16	0.22	0.20	0.27	0.24	0.30	0.36	0.14	0.22
Pacific	0.17	0.16	0.15	0.14	0.15	0.19	0.12	0.18	0.03	0.08	0.14	-0.06
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.59	0.57	0.63	0.71	0.57	0.48	0.57	0.60	0.72	0.67	0.84	-0.17
Pacific	0.69	0.65	0.62	0.52	0.63	0.64	0.48	0.54	0.35	0.52	0.58	-0.07
Venezuelan Light & Medium												
North America	0.69	0.67	0.82	0.79	0.81	0.76	0.68	0.73	0.59	0.61	0.83	-0.22
Europe	0.02	0.01	0.04	0.06	0.07	0.12	0.15	0.10	0.22	0.06	0.01	0.04
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.60	0.88	0.72	0.66	0.56	0.72	0.72	0.71	0.73	0.66	0.77	-0.11
Europe	0.06	0.05	0.06	0.08	0.06	0.08	0.05	0.06	0.05	0.05	0.07	-0.01
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	1.32	1.36	1.27	1.17	1.25	1.26	1.24	1.22	1.26	1.33	1.11	0.22
Europe	0.16	0.16	0.17	0.16	0.18	0.13	0.20	0.18	0.21	0.17	0.13	0.04
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.00	..	0.03	0.02	0.10	0.09	0.03	..	0.01	0.01	..	..
Europe	0.00	0.01	0.03	0.02	0.05	0.01	0.00	..	..	..	0.03	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.14	0.12	0.13	0.16	0.09	..	0.16	0.19	0.24	0.10	0.20	-0.09
Europe	1.62	1.86	1.77	1.76	1.69	1.68	1.83	1.88	1.90	1.48	1.67	-0.19
Pacific	0.00	0.01	0.00	0.01	..	..	..	..	..	0.03	0.03	0.00
Nigerian Light[4]												
North America	0.63	0.80	0.90	0.94	0.90	0.87	0.79	0.65	0.78	0.84	0.99	-0.15
Europe	0.41	0.28	0.35	0.41	0.41	0.28	0.27	0.21	0.30	0.44	0.38	0.06
Pacific	0.08	0.11	0.05	0.07	0.02	0.09	0.03	..	0.06	0.03	0.10	-0.07
Nigerian Medium												
North America	0.17	0.23	0.17	0.13	0.15	0.19	0.17	0.16	0.23	0.22	0.13	0.09
Europe	0.06	0.04	0.07	0.08	0.07	0.08	0.08	0.06	0.13	0.05	0.06	-0.01
Pacific	0.01	0.01	0.01	..	..	..	..	..	..	..	..	..

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)

	2003	2004	2005	3Q2005	4Q2005	1Q2006	2Q2006	May-06	Jun-06	Jul-06	Year Earlier Jul-05	Year Earlier % change
Crude Oil												
North America	8069	8431	8384	8251	8101	7740	8265	8175	8642	8479	8697	-3%
Europe	9096	9478	9811	10082	9955	9382	9624	9667	9926	10335	10033	3%
Pacific	6711	6659	6801	6643	6967	7399	6511	6841	5947	6625	6948	-5%
Total OECD	23876	24569	24997	24975	25023	24521	24399	24683	24515	25439	25679	-1%
LPG												
North America	27	24	18	18	30	8	8	9	10	16	12	28%
Europe	193	225	231	218	230	280	242	260	251	201	187	7%
Pacific	541	541	527	500	486	651	575	581	547	544	547	0%
Total OECD	760	790	776	735	746	939	824	851	808	761	745	2%
Naphtha												
North America	67	99	110	151	76	41	49	78	36	47	188	-303%
Europe	305	282	281	297	287	342	267	412	232	258	351	-36%
Pacific	770	769	746	693	760	692	731	616	844	830	674	19%
Total OECD	1142	1150	1137	1142	1123	1074	1046	1106	1112	1135	1213	-7%
Gasoline[3]												
North America	669	794	1016	1046	1148	1113	1361	1568	1267	1116	984	12%
Europe	150	137	172	208	122	194	143	220	180	174	217	-25%
Pacific	70	105	102	93	90	86	145	161	160	96	97	-1%
Total OECD	888	1035	1291	1346	1360	1393	1648	1950	1606	1386	1298	6%
Jet & Kerosene												
North America	97	101	130	139	268	79	191	227	139	175	160	9%
Europe	271	293	375	449	371	319	380	348	419	319	422	-33%
Pacific	102	77	66	48	49	131	39	48	38	44	47	-6%
Total OECD	470	471	571	636	688	529	610	623	596	538	630	-17%
Gasoil/Diesel												
North America	126	123	142	99	267	210	173	285	128	159	69	57%
Europe	652	751	857	812	869	1073	931	911	812	1033	814	21%
Pacific	73	74	79	79	83	80	94	113	96	64	83	-30%
Total OECD	850	947	1079	989	1218	1363	1198	1308	1036	1256	965	23%
Heavy Fuel Oil												
North America	326	453	525	566	610	481	320	331	371	317	534	-68%
Europe	398	405	491	526	470	521	474	442	501	463	496	-7%
Pacific	88	76	85	90	82	122	105	110	107	93	111	-20%
Total OECD	812	935	1101	1182	1163	1124	899	882	979	873	1141	-31%
Other Products												
North America	680	872	1005	1166	1049	972	1162	1183	1149	1279	1114	13%
Europe	690	676	796	807	801	888	860	861	827	920	830	10%
Pacific	235	256	247	225	263	271	208	203	185	269	246	9%
Total OECD	1605	1805	2048	2197	2113	2131	2230	2247	2161	2469	2190	11%
Total Products												
North America	1991	2466	2947	3185	3447	2903	3264	3681	3099	3110	3060	2%
Europe	2657	2767	3204	3315	3151	3619	3296	3453	3222	3368	3318	1%
Pacific	1879	1898	1852	1728	1812	2032	1896	1832	1977	1940	1804	7%
Total OECD	6527	7132	8003	8228	8410	8554	8457	8967	8298	8417	8182	3%
Total Oil												
North America	10061	10897	11332	11436	11548	10643	11529	11856	11741	11589	11758	-1%
Europe	11753	12246	13015	13397	13106	13001	12920	13120	13149	13702	13351	3%
Pacific	8590	8558	8653	8370	8779	9431	8407	8673	7924	8565	8752	-2%
Total OECD	30403	31700	33000	33203	33433	33075	32856	33650	32813	33856	33861	0%

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

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Users' Guide to the IEA Oil Market Report

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OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

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INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

10 November 2006

HIGHLIGHTS

- **Brent and WTI futures trended sideways in October**, hovering just below $60. Mild temperatures and the (so far) incident-free hurricane season outweighed sharp product stock draws in the US and the announcement of a larger-than-expected output cut by OPEC from 1 November.

- **Global oil product demand growth** has been slightly lowered in 2006 to +1.1%, versus +1.2% in last month's report, following lower third-quarter demand in OECD Pacific and China but is virtually unchanged at +1.7% in 2007. Subdued growth in China possibly reflects stock shifts, rather than a lower trend growth. Lower temperatures in Europe and the US could bolster demand following a relatively mild October.

- **World oil supply** reached 85.3 mb/d in October, up 100 kb/d on the month as OECD increases countered lower OPEC supply. Non-OPEC output averages 51.0 mb/d in 2006 and 52.7 mb/d in 2007. Upward revisions affect US and biofuels supply, while North Sea, FSU, China and Latin America supply is revised down. OPEC NGL supply rises by 0.2 mb/d in both 2006 and 2007.

- **October OPEC crude supply** fell by 335 kb/d to 29.4 mb/d on lower Iraqi, Saudi and Iranian supply. This is 400 kb/d below the 4Q06 'call on OPEC' and leaves effective spare capacity at 2.2 mb/d. The average 2007 call has edged down to 28.3 mb/d on weaker demand and higher biofuel supply projections, versus 28.8 mb/d in 2006.

- **Total OECD industry oil inventories** built by 29 mb in September as higher product stocks in North America and the Pacific offset lower crude and 'other oils' inventories. Weekly data for the US and Japan, however, show an offsetting drawdown in product stocks in October. OECD September demand cover was unchanged at 55 days, but is two days higher than last year.

- **Heavy autumn refinery maintenance** cuts forecast OECD crude runs by a further 1.3 mb/d in October, following a 700 kb/d decline in September. Projected global refinery maintenance peaked in October, with an average 3.7 mb/d estimated shutdown during the month. Outages fall to less than 1 mb/d by the end of the year.

Next Issue: 13 December 2006

OMR PUBLISHING SCHEDULE - 2007

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Tuesday 13 February
Tuesday 13 March
Thursday 12 April
Friday 11 May
Tuesday 12 June
Friday 13 July
Friday 10 August
Wednesday 12 September
Thursday 11 October
Tuesday 13 November
Wednesday 12 December

(Information on the publication of the *Annual Statistical Supplement and User's Guide [2007 Edition]* will be communicated in early 2007.)

This information is also available at: **oilmarketreport.org/schedule** and **omrpublic.iea.org/schedule.**

CONTENTS

HIGHLIGHTS 1

CONTENTS 3

THE INVISIBLE HAND 4

DEMAND 5
- Summary 5
- Worldwide Overview 5
  - North America 7
- The EIA's Adjustments: PSA versus PSM 8
- Mexico's Rapidly-Growing Gasoline Demand 9
  - Europe 10
  - Pacific 11
- Non-OECD 12
  - China 12
  - China's Retail Pricing Mechanism 13
  - Other Non-OECD 14

SUPPLY 15
- Summary 15
- OPEC 16
- Consultative Meeting of the OPEC Conference, Doha, 19-20 October 2006 17
- OECD 19
  - North America 19
- US Revisions Centre on 2005 Baseline, and 'Other Supply' 21
  - North Sea 22
  - Pacific 22
- Former Soviet Union (FSU) 23
- Biofuels Revisions 24
- Other Non-OPEC 24
  - Revisions to Other Non-OPEC Estimates 24

OECD STOCKS 26
- Summary 26
- OECD Industry Stock Changes in September 2006 27
  - OECD North America 27
  - OECD Europe 27
  - OECD Pacific 28
- OECD Inventory Position at End-September and Revisions to Preliminary Data 28
- Recent Developments in ARA Independent Storage 29
- Recent Developments in Singapore Stocks 29
- An Update on Chinese Strategic Storage 31

PRICES 32
- Summary 32
- Overview 32
- Crude Oil Prices 33
  - Delivered Crude Prices in August 35
- Refining Margins 35
- Product Prices 37
  - End-User Product Prices in October 39
- Freight 39

REFINING 41
- Summary 41
- Refinery Throughput 41
  - OECD North America 41
- ULSD – Not an Acronym for Un-Limited Supply Disruption 43
- Fuel Quality - Further Challenges Lie Ahead for the Global Refining Industry 44
  - OECD Europe 45
  - OECD Pacific 45
- OECD Refinery Yields 45
- Non-OECD Throughput 46
- Offline Refinery Capacity 47

TABLES 48

OIL MARKET REPORT CONTACTS

THE INVISIBLE HAND

The fall in oil prices from their August peaks has resurrected the funds-versus-fundamentals debate. While some reports blame speculative activity for the sharp price decline, data increasingly point to fundamental causes - particularly an easing of gasoline market tightness, rising product stocks, mild weather and less concern over product specification changes. Undoubtedly, there was a change in speculative positions - the *CFTC Commitment of Traders Report* shows non-commercials moving from a large net-long to modest net-short position but not to a degree which is out of line with historical norms. However, the real market debate is whether the large amounts of money that have been moved into index funds over the past three years and are not readily identifiable in the CFTC report have driven prices higher.

Despite the 22% fall in the oil price and increase in volatility, anecdotal reports suggest that the flows into index funds may have actually increased over the past three months. If that is indeed the case, then that in itself is an argument against the view that index fund flows are distorting the oil market and supporting prices. The fund argument broadly runs along the following line: index fund buying has created a forward premium (contango) structure, which makes stockholding financially attractive. This has in turn led to a large build-up in inventories. The corollary of this argument is that if fund inflows slow (or funds are withdrawn), then these stocks will be made available to the market, depressing prices.

One argument against this happening is that the strong historical relationship between forward spreads in crude oil futures and inventories remains in place. This suggests that the widening contango is a direct result of supplies exceeding demand, rather than a result of upward pressures on forward prices from fund buying. That is perhaps rather obvious – supply has to exceed demand for stocks to build, regardless of who is buying or selling the market. Nevertheless, it also suggests that even if index fund buying slows down, or money is withdrawn, then the contango structure should remain in place. In other words, there would not necessarily be a flood of oil from stocks to the market.

But if that part of market structure has not changed, there is no doubt that there are other forces at work. In particular, the coincidence of a large contango and rising oil prices is unusual. Generally, a premium for spot oil prices (backwardation) occurs in times of tight supplies, while a contango is seen when supply exceeds demand. In the latter case, surplus spot oil is discounted to clear the market, creating a contango structure. Unsurprisingly, contangos are also associated with bear market conditions.

We examined the crude oil market between late 2004 and August 2006 when WTI futures almost doubled in price from $40 and a contango structure developed. It appears that despite an upward trend in prices, the day-to-day development of the contango structure followed a similar pattern to that seen over the past 20 years – on the days that the contango has widened, the spot price has generally fallen. In other words, oil *was* being discounted to clear the spot market. But these down days were more than offset by price increases on other days and when the market rose, the forward price structure did not change. This suggests that the upward price pressures did not come exclusively from spot buying (or the contango should have narrowed), but must also have come from upward price pressures across the forward curve.

Fund money could still be a potential factor behind such upward price movement, but there are two further arguments that stand against index funds as the primary cause of the market rally. Firstly, index funds invest in a wide range of commodities, and contangos have not developed when prices of those commodities rose. Also, there has been little correlation between the prices of commodities that make up the investment basket of such funds.

There are other factors to consider. Increased geopolitical risks against a background of low spare capacity could contribute to a desire by consumers to hold higher stocks and elevate price expectations. Consumer and producer hedging have become cyclically imbalanced. Consumers have aggressively hedged their future purchases, while producers have been reluctant to sell forward into a rising market, leading to greater upward pressures on prices. Industry cost pressures and constraints may also increase producer hedging risk: it may not be prudent to lock in a return given increased start-up risk and a changing cost structure. Further, there seems to be increasing evidence that tight supplies of transportation fuels contributed to rising crude prices (and then easing was a key reason behind their recent price fall).

None of these factors will conclusively resolve the funds-versus-fundamentals discussion, but more data could provide further clarity. Regulators could segregate the hedging, fund investment and physical trading activity currently bunched under the ‘catch all’ commercial category. Trader participation across different contract months could also be detailed as could money flows into certain types of investment products. But just as important is the growing need for better, more timely and regular oil stock data. Market transparency leads to a better understanding of the invisible hand.

DEMAND

Summary

- Global oil product demand growth has been slightly lowered in 2006 to +1.1% (versus +1.2% in the previous report), while growth in 2007 remains unchanged at +1.7%. Worldwide demand is expected to average 84.5 mb/d this year and 85.9 mb/d the next. In terms of quarterly trends, 4Q06 is expected to rebound strongly (+2.6% compared with 4Q05), pulled up by OECD North America, where demand growth will be markedly stronger as a result of last year's hurricane-depressed baseline.

Global Oil Demand from 2005 to 2007

	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)	84.5	82.4	83.3	84.1	83.6	84.8	83.0	83.9	86.3	84.5	86.4	84.4	85.4	87.6	85.9
Annual Change (%)	2.7	1.6	1.6	0.1	1.4	0.3	0.8	0.7	2.6	1.1	1.9	1.7	1.8	1.5	1.7
Annual Change (mb/d)	2.2	1.3	1.3	0.0	1.2	0.2	0.6	0.6	2.2	0.9	1.6	1.4	1.5	1.3	1.5
Changes from last month's report (mb/d)	0.0	0.0	0.1	0.1	0.0	-0.1	0.0	-0.3	0.1	-0.1	-0.1	0.0	-0.4	0.2	-0.1

- OECD oil product demand has been kept virtually unchanged at 49.4 mb/d in 2006 and 49.7 mb/d in 2007. On an annual basis, growth is forecast at -0.4% and +0.6%, respectively. North American data were revised, largely because of adjustments (+36 kb/d) to US baseline demand in 2005 following the release of the EIA's *Petroleum Supply Annual*. Nevertheless, since this report had already incorporated a PSA adjustment, our revision was considerably lower than the PSA's (+145 kb/d). The US yearly growth rate in 2005 now stands at +0.3%. Growth is expected to be flat in 2006 and +1.2% in 2007.

Global Oil Demand by Region
(million barrels per day)

	Demand		Annual Change			Annual Change (%)		
	2006	2007	2005	2006	2007	2005	2006	2007
North America	25.43	25.77	0.13	-0.07	0.35	0.5	-0.3	1.4
Europe	16.21	16.20	0.04	-0.02	-0.01	0.2	-0.1	-0.1
OECD Pacific	8.49	8.46	0.10	-0.10	-0.03	1.2	-1.2	-0.3
China	7.01	7.39	0.18	0.41	0.38	2.8	6.2	5.4
Other Asia	8.86	9.08	0.16	0.09	0.21	1.8	1.0	2.4
Subtotal Asia	24.37	24.93	0.44	0.40	0.56	1.9	1.7	2.3
FSU	3.91	3.94	0.05	0.10	0.03	1.3	2.7	0.8
Middle East	6.45	6.80	0.32	0.33	0.35	5.6	5.4	5.4
Africa	2.94	3.01	0.08	0.07	0.07	3.0	2.4	2.4
Latin America	5.19	5.29	0.13	0.10	0.10	2.7	1.9	2.0
World	84.49	85.94	1.19	0.90	1.45	1.4	1.1	1.7

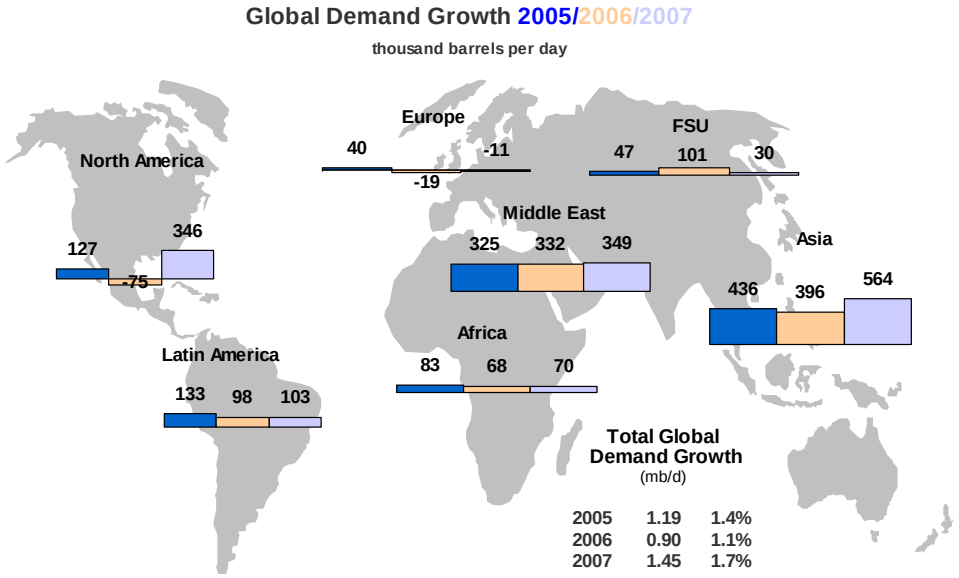
- Non-OECD demand remains broadly unchanged at 35.1 m/d in 2006 (+3.3%) and 36.2 mb/d in 2007 (+3.3%). China posted unusually weak apparent demand growth in September, but this is likely explained by destocking. The seasonality patterns in the Middle East are in the process of being finessed using JODI data, but annual growth rates remain unchanged.

Worldwide Overview

Preliminary data suggest that global oil demand was sustained in September, as US consumption rebounded strongly from last year's low, hurricane-stricken base. Nevertheless, this rebound was somewhat weaker than expected. As such, we have slightly revised downwards our global growth forecasts for 2006 (+1.1% to 84.5 mb/d, versus +1.2% in the previous report), while leaving that of 2007 unchanged at +1.7% (85.9 mb/d). In quarterly terms, 4Q06 is expected to rebound strongly (+2.6% compared with 4Q05), again pulled up by OECD North America.

In absolute terms, global demand growth will be slightly slower this year than last (+0.9 mb/d in 2006 versus +1.2 mb/d in 2005), but it will likely rebound in 2007 by +1.5 mb/d, pulled up by non-OECD consumption, particularly from China. Commercial restocking could also support demand if prices remain at current levels.

Even if the US economy were to slow down, the world economy (and global demand) are likely to hold their ground, for two reasons: on the one hand, Chinese investment-driven growth will arguably continue, especially given the considerable infrastructure needs of the forthcoming 2008 Olympics; on the other, increasing trade within Asia and between Asia and Europe has to some extent resulted in a degree of economic decoupling from the US.



The recent sharp fall in oil prices could blur demand trends, particularly for transportation fuels (gasoline, jet fuel, diesel and bunkers). By their very nature, transportation fuels are price inelastic in the short term, since there are no viable substitutes. However, if high prices are sustained over time (one year or more) consumers tend to reduce demand, especially in developing countries. Therefore, prices would need to remain at their current levels for at least several months before we would expect to see an effect on demand in those countries that were harder hit by the last period of high oil prices. Note as well that demand responses are usually asymmetric – i.e., demand usually responds much more to a price increase than to a decrease.

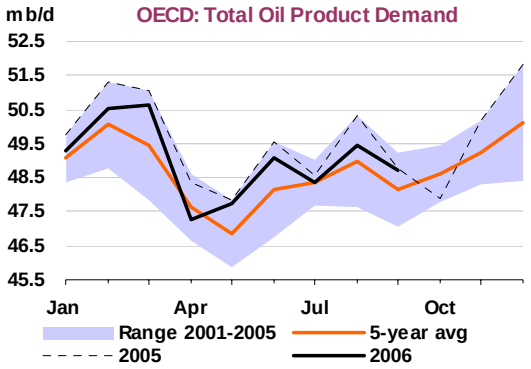
Interestingly, a *sustained* price fall could have three other effects: 1) reduce fiscal pressures in countries that have been reluctant to abandon very low administered prices for domestic political reasons; 2) allow countries with less significant subsidies to move towards price liberalization (the prime example being China); and 3) discourage, albeit marginally, moves toward greater energy efficiency (although prices remain high). Of course, this will depend upon future price levels – a difficult appraisal in the light of uncertainty over the impact of OPEC cuts and just ahead of a winter-driven demand rebound.

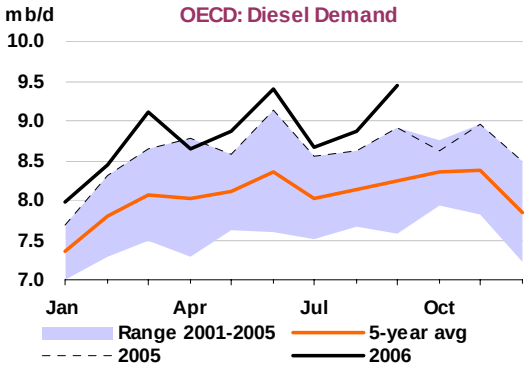
Total OECD Demand by Product
(million barrels per day)

	2005	2006	3Q05	4Q05	1Q06	2Q06	Jun 06	Jul 06	Aug 06*	Latest month vs. Jul 06	Latest month vs. Aug 05
LPG & Ethane	4.73	4.68	4.35	4.76	4.98	4.40	4.45	4.38	4.49	0.10	-0.02
Naphtha	3.22	3.12	3.24	3.09	3.18	2.92	2.94	3.09	3.16	0.07	-0.16
Motor Gasoline	14.84	14.90	15.18	14.77	14.34	14.97	15.23	15.43	15.53	0.10	-0.04
Jet & Kerosene	4.25	4.25	4.02	4.40	4.52	4.02	4.01	4.00	3.99	0.00	-0.05
Gas/Diesel Oil	13.06	13.27	12.75	13.41	13.74	12.66	12.95	12.30	12.95	0.65	0.01
Residual Fuel Oil	4.44	4.12	4.33	4.50	4.65	3.81	3.78	3.86	3.85	-0.01	-0.54
Other Products	5.05	5.05	5.35	5.02	4.72	5.23	5.71	5.27	5.47	0.19	-0.05
Total Products	**49.60**	**49.39**	**49.22**	**49.96**	**50.14**	**48.01**	**49.07**	**48.34**	**49.45**	**1.11**	**-0.85**

* Latest official OECD submissions (MOS)

Another dimension of price volatility is related to its substitution effects. A main reason behind the OECD's relatively stagnant oil product consumption is that products used in industrial activities, such as naphtha and fuel oil, have been replaced by cheaper natural gas or coal (with the exception of marine bunkers). However, should oil prices continue to fall or those of gas rise again, substitution could theoretically face a limit – and demand growth for the heavy end of the barrel would then resume. In fact, in the US, natural gas and fuel oil prices have not only converged for the first time since February, but fuel oil is now cheaper, encouraging some substitution away from natural gas.





Total OECD demand is within seasonal ranges, with the exception of transportation fuels, particularly diesel, which shows a clear increase over past levels. Interestingly, this trend is shared by both North America and Europe, reflecting strong road freight activity and restocking in the former, and the continued dieselization of the vehicle fleet in the latter. In the Pacific, by contrast, overall demand has been sluggish since the summer, arguably because of high retail prices, among other factors.

OECD Demand based on Adjusted Preliminary Submissions - September 2006

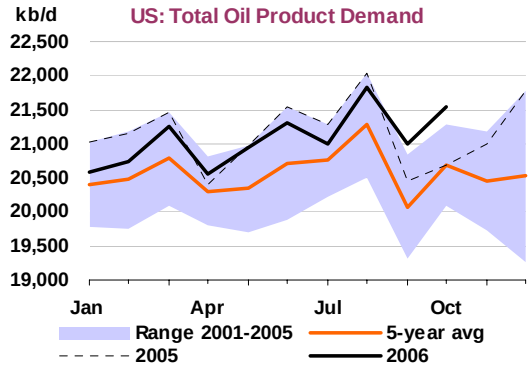
(million barrels per day)

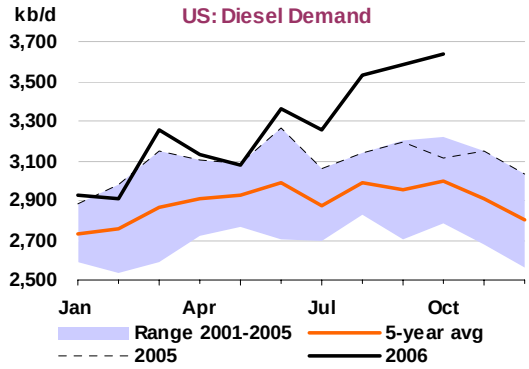
	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
OECD North America	**10.66**	**3.2**	**1.87**	**-4.1**	**4.03**	**11.3**	**1.34**	**-8.3**	**1.07**	**-34.3**	**6.18**	**9.11**	**25.16**	**2.0**
USA*	9.21	3.3	1.64	-5.0	3.54	12.3	0.87	-10.3	0.56	-45.6	4.87	11.8	20.68	2.7
Canada	0.69	0.5	0.13	5.3	0.18	2.2	0.34	-8.2	0.16	0.8	0.70	13.4	2.20	3.2
Mexico	0.70	5.3	0.06	-1.8	0.26	7.0	0.11	7.0	0.27	-25.7	0.55	-13.0	1.96	-5.6
OECD Europe	**2.61**	**-2.8**	**1.40**	**4.1**	**4.22**	**3.1**	**2.28**	**3.0**	**1.68**	**-4.0**	**3.65**	**-4.7**	**15.84**	**-0.5**
Germany	0.53	-1.1	0.20	0.8	0.66	3.2	0.64	3.7	0.15	-9.4	0.54	-18.2	2.72	-3.4
UK	0.43	-2.7	0.41	12.2	0.43	5.1	0.16	2.2	0.08	-4.8	0.38	-5.2	1.90	1.7
France	0.24	-6.6	0.16	2.0	0.68	2.3	0.40	6.0	0.08	-14.9	0.49	-2.6	2.06	-0.1
Italy	0.31	-6.4	0.08	5.9	0.57	4.0	0.13	-0.7	0.27	-3.8	0.36	-2.0	1.72	-0.8
Spain	0.17	-1.4	0.13	5.3	0.50	3.6	0.17	-7.7	0.24	3.2	0.35	-1.5	1.56	0.6
OECD Pacific	**1.57**	**-2.0**	**0.62**	**-15.8**	**1.21**	**1.3**	**0.48**	**-20.0**	**0.93**	**-5.5**	**2.90**	**-6.1**	**7.70**	**-6.0**
Japan	1.01	-5.6	0.37	-24.0	0.60	-3.0	0.38	-19.7	0.49	-18.0	1.69	-8.5	4.53	-10.8
Korea	0.17	4.6	0.14	-5.8	0.29	8.8	0.10	-21.5	0.41	13.0	0.99	-1.7	2.09	1.3
Australia	0.34	5.8	0.09	7.2	0.27	3.2	0.00	15.5	0.02	7.7	0.20	-6.4	0.92	2.3
OECD Total	**14.85**	**1.5**	**3.88**	**-3.5**	**9.45**	**6.2**	**4.10**	**-4.1**	**3.68**	**-15.6**	**12.73**	**1.2**	**48.69**	**-0.1**

* Fifty States Only

North America

In the **United States**, according to preliminary data, September deliveries– a proxy of demand – of LPG, naphtha, gasoline, diesel and other products surged by 14.7%, 17.5%, 3.3%, 12.3% and 9.3%, respectively, from hurricane-affected September 2005, offsetting lower deliveries of jet fuel (-5.0%), heating oil (-10.3%) and residual fuel oil (-45.6%). Overall, total US petroleum deliveries rose by 2.7% versus levels of a year ago. Meanwhile, total demand in August was revised up by 214 kb/d, mostly because upward adjustments in diesel and residual fuel offset downward changes to jet fuel and heating oil. These revisions, however, are also related to the new 2005 baseline, following the release of the EIA's *Petroleum Supply Annual*, as discussed below.



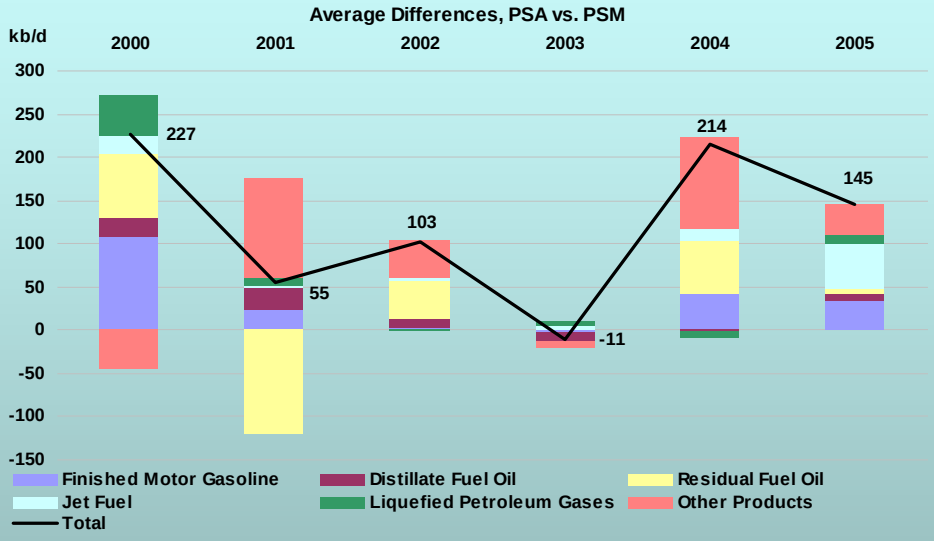


September's strong demand growth is explained by the low base of the previous year, when consumption was severely disrupted by hurricanes Katrina and Rita. Nonetheless, the steep fall of transportation fuel retail prices from early August to late September (by 66 cents per gallon to $2.56 on average in September for gasoline, and by 50 cents per gallon to $2.78 on average for diesel) also contributed to sustain the vigour of primary gasoline and diesel deliveries. Diesel's strength is explained both by price and stock movements (increased supplies of ultra-low-sulphur diesel (ULSD) ahead of its retail introduction in mid-October) and by ongoing structural changes in the US economy (the increasing importance of trade as a result of offshoring and the growing ethanol-logistics sector), coupled with a rising seasonal activity.

Airlines' efforts to improve fuel efficiency through higher utilisation rates have resulted in a contraction of jet fuel consumption. The price fall, though, could perhaps induce changes in buying patterns. The fall in residual fuel consumption, meanwhile, is related to cheaper natural gas. Natural gas in September averaged some $5/Mbtu, compared with some $7/Mbtu for fuel oil on an equivalent basis – compared with last's year $12/Mbtu for the former versus $8/Mbtu for the latter. However, in October both fuels not only converged, but fuel oil is now cheaper than natural gas; this has heralded some substitution back into fuel oil. According to a recent study by the EIA, 5% of industrial boilers and 20% of power generation capacity are dual fired (able to switch from oil to gas and vice versa), while 18% of US gas consumption can switch to oil.

The EIA's Adjustments: PSA versus PSM

In mid-October, when our last report was going to press, the US Energy Information Administration (EIA) released the latest edition of its *Petroleum Supply Annual* which included revisions to the 2005 baseline, hitherto compiled from the EIA's *Petroleum Supply Monthly.* PSA data has shown a historical tendency to come in higher than PSM figures, since annual data are more precise than monthly numbers, which tend to understate trade figures. Total deliveries were revised up in 2005 by 145 kb/d, implying a yearly growth rate of +0.3%, instead of a year-on-year decline of 0.4% when using monthly figures. This was lower than 2004 revisions but roughly in line with past trends.

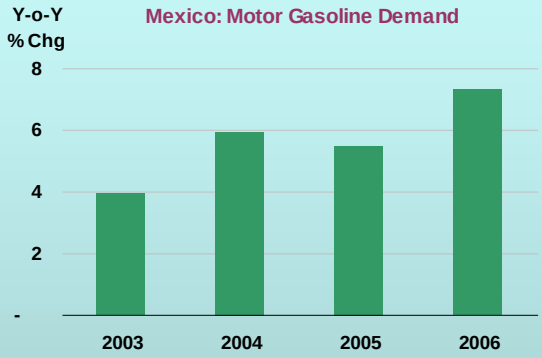


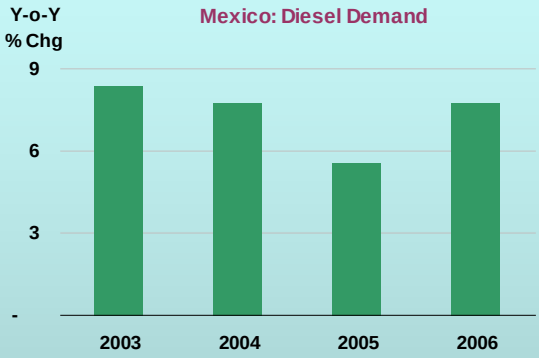
The PSA revisions, however, pose an inherent methodological problem, as we have previously noted in this report. Current-year data – that is, 2006 PSM estimates – are not adjusted in the same proportion of previous-year figures until the release of the next PSA. Thus, year-on-year growth rates inevitably change, sometimes significantly, thus distorting the overall US demand picture. As shown in the above graph, the largest revisions usually concern gasoline, residual fuel oil and other products. This year, though, the adjustment for fuel oil was minor, but jet fuel deliveries were sharply increased.

To avoid this problem, since last year this report has attempted to anticipate the annual revisions on a product-by-product basis. Although it is difficult to extrapolate from observed past changes, the magnitude of future changes can at least be minimized. As such, having included this adjustment last year, we only needed to revise our average figure for 2005 by +36 kb/d – about 25% of the total PSA adjustment. As for 2006 (which we have also been adjusting), we have now revised demand by a very modest +14 kb/d. Overall, we expect US oil product demand growth to be flat in 2006. In 2007, total consumption should rise by +1.2% to 21.1 mb/d.

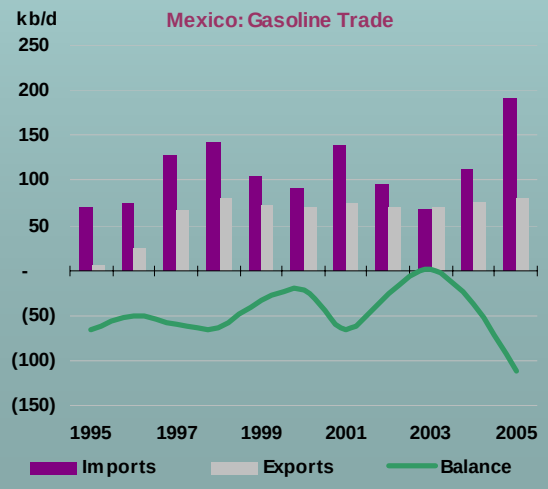
Mexico's Rapidly-Growing Gasoline Demand

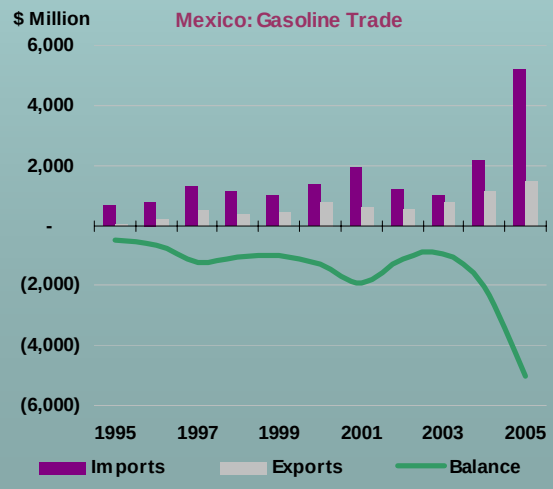
Over the past few years, Mexico's consumption of transportation fuels has picked up significantly. Gasoline has grown by some 5% per year on average since 2000, and diesel by about 6%. This buoyant picture is explained by a) economic growth, which has boosted road freight activity and domestic travel; b) stable macroeconomic conditions over the past decade, which have promoted the emergence of a consumer credit market; c) the trade opening brought about by Mexico's trade agreements with main car producing countries, which greatly enhanced the variety of vehicles on offer; and d) a stable domestic price environment, since the state-owned company, Pemex, has cushioned the volatility of international oil prices.





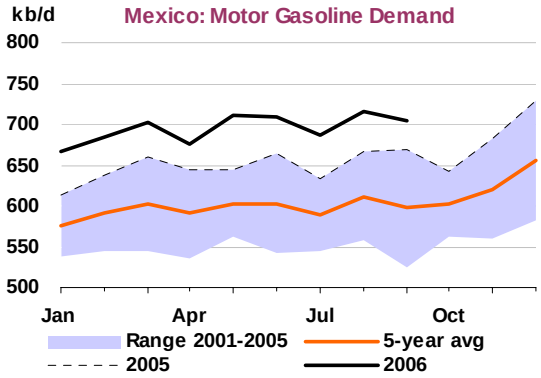
However, given a number of political and financial impediments, Pemex has been unable to expand its refining capacity fast enough and gear it towards greater production of light/middle distillates. The shortfall, particularly of gasoline, must therefore be imported, at great expense given prevailing high prices. As a result, Pemex spends a sizeable chunk of the revenues generated from crude exports to buy higher-added-value refined products.

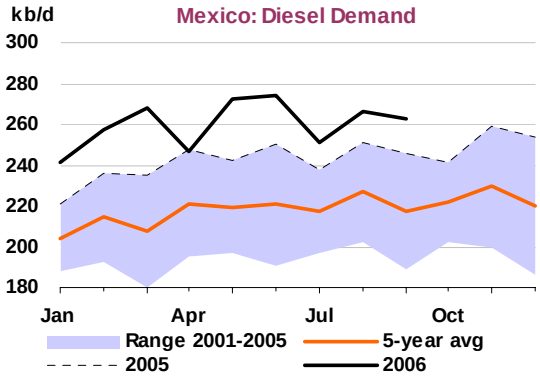




Mexico posted a significant downward adjustment in September (-155 kb/d), due to much lower-than-expected deliveries of all product categories (bar gasoil), and especially gasoline and residual. On an annual basis, the country's total oil product demand is expected to contract by some 1.3% in 2006, despite buoyant growth of transportation fuels.

Echoing specification improvements in the US, in late October state-owned monopoly Pemex announced the gradual launch of both ULSD and diesel. The new ultra-low-sulphur 'premium' gasoline will have 88% less sulphur than the existing premium grade, while ULSD will have 97% less, akin to US specifications. However, Pemex acknowledges that most of these new fuels will have to be imported, given the slow pace of refining improvements (see text box). Indeed, the new gasoline requirements – estimated at 120 kb/d – will be met by importing 90 kb/d (75%) and producing the remaining 30 kb/d (25%) domestically.





OECD North America Demand by Product

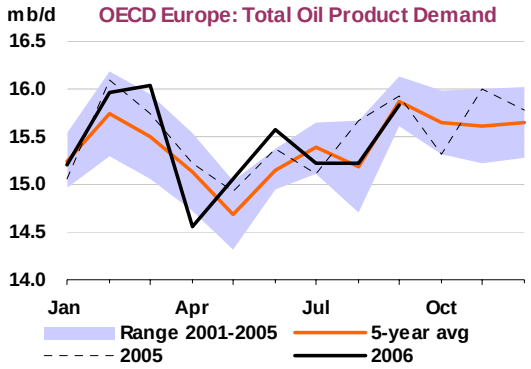
(million barrels per day)

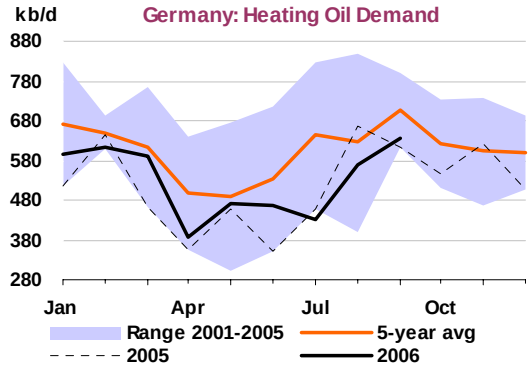
	2005	2006	3Q05	4Q05	1Q06	2Q06	Jun 06	Jul 06	Aug 06*	Latest month vs. Jul 06	Latest month vs. Aug 05
LPG & Ethane	2.82	2.83	2.60	2.81	2.98	2.65	2.60	2.61	2.75	0.14	-0.06
Naphtha	0.46	0.41	0.50	0.31	0.37	0.40	0.40	0.39	0.46	0.07	-0.11
Motor Gasoline	10.59	10.75	10.79	10.60	10.35	10.80	10.98	11.11	11.17	0.07	0.14
Jet & Kerosene	1.97	1.95	1.99	1.99	1.87	1.95	1.98	1.97	1.91	-0.05	-0.10
Gas/Diesel Oil	5.09	5.23	4.94	5.15	5.35	5.01	5.01	4.82	5.26	0.44	0.26
Residual Fuel Oil	1.56	1.28	1.61	1.63	1.43	1.15	1.13	1.20	1.30	0.10	-0.39
Other Products	3.01	2.98	3.15	2.99	2.78	3.14	3.48	3.06	3.35	0.29	-0.05
Total Products	**25.50**	**25.43**	**25.58**	**25.48**	**25.12**	**25.08**	**25.58**	**25.15**	**26.21**	**1.06**	**-0.30**

* Latest official OECD submissions (MOS)

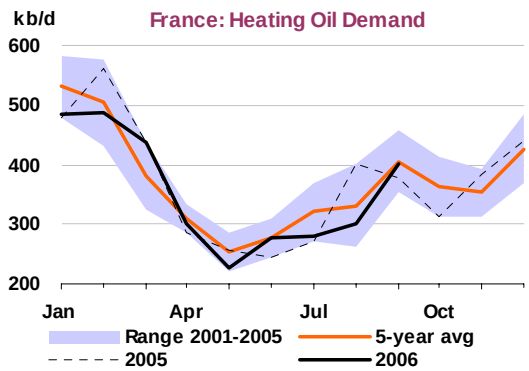
Europe

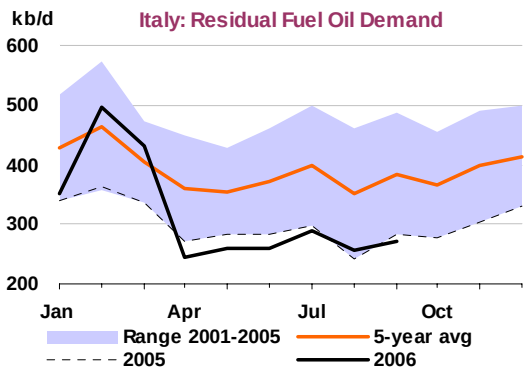
Oil product demand in Europe resumed its slow decline in September, in line with expected seasonal patterns (-0.5% compared with September 2005). However, robust economic growth (expected by the IMF to reach 2.4% for the Euro area in 2006, almost twice as high as in 2005), coupled with pre-winter stockbuilding, supported strong diesel and heating oil demand.





German consumers, in particular, took advantage of falling prices and continued to fill their household heating oil tanks ahead of winter (+3.7% on a yearly basis) – and were joined by the **French** (+6%). By the end of September, German consumer stocks of heating oil reportedly stood at 65%





of capacity, the average of the past five years. However, German fuel oil demand plummeted during September, softened by mild weather (fuel oil fell by 9.4% year-on-year). In **Italy**, fuel oil's structural decline slowed a bit, as lower hydropower supplies boosted fuel oil requirements for electricity generation.

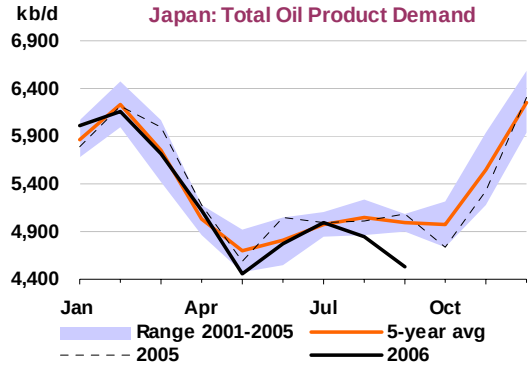
OECD Europe Demand by Product
(million barrels per day)

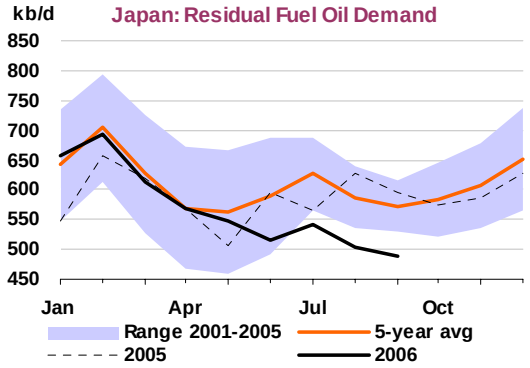
	2005	2006	3Q05	4Q05	1Q06	2Q06	Jun 06	Jul 06	Aug 06*	Latest month vs. Jul 06	Latest month vs. Aug 05
LPG & Ethane	1.03	0.97	0.92	1.07	1.09	0.92	0.96	0.87	0.84	-0.03	-0.09
Naphtha	1.18	1.12	1.15	1.21	1.17	1.04	1.02	1.07	1.08	0.01	-0.09
Motor Gasoline	2.64	2.55	2.73	2.56	2.43	2.62	2.67	2.68	2.67	-0.01	-0.11
Jet & Kerosene	1.24	1.30	1.33	1.23	1.23	1.31	1.38	1.34	1.42	0.08	0.08
Gas/Diesel Oil	6.10	6.20	6.06	6.35	6.47	5.87	6.08	5.82	5.98	0.16	-0.19
Residual Fuel Oil	1.84	1.83	1.73	1.81	2.06	1.72	1.74	1.76	1.66	-0.10	-0.05
Other Products	1.49	1.50	1.64	1.47	1.28	1.59	1.71	1.69	1.57	-0.12	-0.01
Total Products	**15.51**	**15.48**	**15.56**	**15.70**	**15.72**	**15.06**	**15.57**	**15.23**	**15.21**	**-0.02**	**-0.45**

* Latest official OECD submissions (MOS)

Pacific

In **Japan**, September preliminary inland deliveries were much lower than expected (-10.8% versus levels of a year ago). With the exception of LPG, deliveries of all product categories were lower than year-ago levels, especially jet/kerosene, gasoil and residual. This overall weakness was due to several factors, notably the end of the summer holiday season, already depressed by high retail prices in transportation fuels, a near completion of stockpiling ahead of winter (kerosene and gasoil) and continued weak residual and direct-burning crude consumption as nuclear facilities have been running at high utilisation rates.





Demand growth in **Korea** rose slightly for the second consecutive month (+1.3%), but remains stagnant on a yearly basis. Oil product stocks, particularly of naphtha, rose to their highest levels in almost two years. The naphtha build, however, is also related to maintenance at SK's cracker during August and September.

OECD Pacific Demand by Product
(million barrels per day)

	2005	2006	3Q05	4Q05	1Q06	2Q06	Jun 06	Jul 06	Aug 06*	Latest month vs. Jul 06	Latest month vs. Aug 05
LPG & Ethane	0.89	0.89	0.82	0.88	0.92	0.84	0.88	0.90	0.90	-0.01	0.13
Naphtha	1.58	1.59	1.58	1.58	1.65	1.48	1.51	1.63	1.62	-0.02	0.04
Motor Gasoline	1.61	1.60	1.66	1.61	1.57	1.56	1.58	1.65	1.69	0.04	-0.07
Jet & Kerosene	1.04	1.00	0.70	1.19	1.42	0.75	0.65	0.69	0.66	-0.03	-0.03
Gas/Diesel Oil	1.87	1.83	1.75	1.91	1.92	1.79	1.86	1.66	1.71	0.05	-0.06
Residual Fuel Oil	1.05	1.01	0.98	1.07	1.16	0.95	0.91	0.90	0.89	-0.01	-0.11
Other Products	0.55	0.57	0.57	0.55	0.67	0.50	0.52	0.53	0.55	0.02	0.01
Total Products	**8.59**	**8.49**	**8.07**	**8.79**	**9.30**	**7.87**	**7.92**	**7.96**	**8.02**	**0.06**	**-0.10**

* Latest official OECD submissions (MOS)

Non-OECD

China

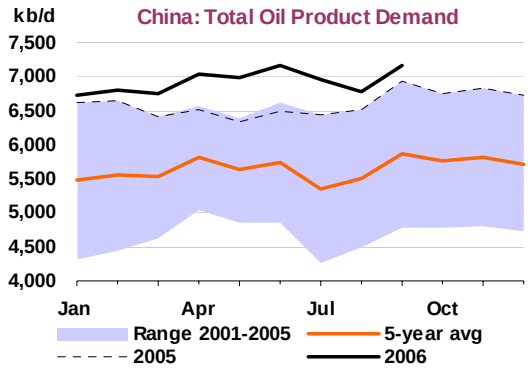
According to preliminary data, apparent demand (defined as refinery output plus net oil product imports) grew by a 'weak' 3.2% on an annual basis in September. Although all product categories posted positive rates bar LPG and naphtha, demand for transportation fuels, particularly of gasoline, was quite subdued, growing by less than 2% compared with levels of a year ago – the lowest pace since March. Moreover, August's growth figures were halved in the light of new data; year-on-year growth for that month now stands at about 4%.

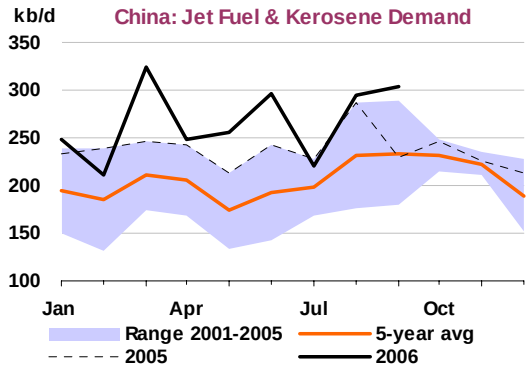
Is China's oil product demand losing steam, especially when compared with the very strong growth rates of the past few months? We do not think that is the case. Changes in China's apparent demand may have as much to do with expectations of retail price shifts and related stock changes as with underlying consumption. The structural support of Chinese consumption, economic growth, is still strong and likely to remain so, at least in the short term: apparent demand in September is estimated at some 7.2 mb/d – roughly 400 kb/d more than in August and the highest level ever attained in absolute terms. Refinery output from Sinopec and PetroChina grew by some 300 kb/d over the previous month, while net oil product imports remained buoyant, within the average of the past six months. Net crude imports jumped by a massive 630 kb/d compared with the previous month. In sum, these figures are consistent with reports that China is building crude oil stocks.

Meanwhile, the country is augmenting its domestic oil product supplies, particularly of gasoline and diesel, with stocks and export limitations. In this sense, it is worth noting that September's diesel exports were virtually nil. In the same line, Chinaoil, PetroChina's trading arm, recently stated that it will not export gasoline before December at best, having already suspended shipments in September.

Further caveats to the Chinese consumption picture are in order when examining individual products. For example, the seeming weakness of naphtha is due to a combination of petrochemical plant maintenance and new naphtha crackers using condensates as a feedstock, rather than falling demand. By contrast, gasoil deliveries grew by 4% versus levels of a year ago, boosted by the start of the fishing and harvest seasons. Jet fuel apparent demand jumped by almost 33% on an annual basis, as suppliers (who had recently curbed jet output in order to maximize diesel production) braced themselves for the week-long October holiday, when travel is usually significant. Although it is too early to assess this year's passenger load, a look at past figures is instructive: last year the Beijing Capital International Airport, which had been designed to handle 35 million passengers a year, had to cope with 41 million passengers (17% above capacity). There are reports of many other airports across the country operating at above capacity.

In the light of the above, we have only slightly adjusted downwards our year-on-year growth forecast of Chinese apparent demand for 2006 and 2007 (now +6.2% and +5.4%, respectively).





Ex-refinery prices (and hence retail prices) were not raised after October's Golden Week holiday, as had been rumoured. However, with the recent fall in international oil prices it is open to question whether a domestic price hike is as imperative as in previous months – when both refiners and airlines were obliged to *de facto* subsidise consumers given that domestic prices were too low relative to international levels, thus incurring heavy losses (airlines, though, were granted some relief in the form of fuel surcharges).

Indeed, there is some evidence that arbitrage opportunities have arisen in China for the first time in months. For example, according to independent sources, by end-September Chinese diesel imports by PetroChina (the first this year) were priced at RMB 5,500/tonne, compared with a domestic wholesale price of RMB 6,750/tonne. Nevertheless, the Chinese majors, arguably seeking to protect their retail margin, claim that domestic prices are still too low. In any case, the narrowing differentials between domestic and international prices should help producers curb their losses. In 1H06, Sinopec reportedly lost RMB 16.6 billion (about $2.1 billion), while the China National Petroleum Corporation (CNPC) lost RMB 13.9 billion ($1.8 billion) in its refining and marketing operations.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2005	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
LPG & Ethane	637	624	630	-12	6	-2.0	1.0
Naphtha	772	876	933	104	57	13.5	6.6
Motor Gasoline	1088	1173	1267	85	94	7.8	8.0
Jet & Kerosene	237	268	280	31	12	13.2	4.3
Gas/Diesel Oil	2122	2216	2379	94	163	4.4	7.4
Residual Fuel Oil	785	817	810	32	-7	4.1	-0.9
Other Products	963	1041	1090	78	49	8.1	4.8
Total Products	**6602**	**7014**	**7390**	**412**	**376**	**6.2**	**5.4**

Lower prices are also welcome news for the government. Over the summer, when international oil prices reached nominal record highs, the government acknowledged the need to address the mounting cost of price subsidies, but was also worried by the social and political consequences of a sudden price liberalisation. Therefore, while it would seem likely that the government may seize the opportunity provided by the ongoing convergence of domestic and international prices to adopt a market-based pricing mechanism, this is far from certain. In fact, there are considerable divergences within the government, with some officials arguing for the liberalization of prices, while others advocating the maintenance of the current pricing policy, coupled with a domestic cut to account for lower international prices. A recent high-profile meeting held by the National Development and Reform Commission (NDRC) with the state-owned oil giants and the Shanghai Petroleum Exchange did not result in any changes to the so-called 'guidance' (wholesale) prices.

China's Retail Pricing Mechanism

The current retail pricing mechanism for gasoline and gasoil is based on a wholesale or 'guidance' price determined by the government, to which a margin is added or subtracted depending on the level of international price benchmarks.

- 'Guidance' or wholesale prices (decreed by the government and adjusted only twice so far this year, in March and May) = weighted monthly average of spot physical prices in the benchmark Singapore, Rotterdam and New York Harbour markets.
- Retail price = guidance price + an upward or downward adjustment (+/-8% maximum) that depends upon the prevailing average of international benchmarks – i.e., the higher the average, the lower the margin (above $60/bbl, the margin becomes negative).

As such, with the recent fall of international benchmark prices, the two Chinese oil majors have seen their margin become positive. The cost of importing gasoline from Singapore is now reportedly much lower than prevailing 'guidance' prices in southern and eastern China.

By the same token, a long-advocated automobile fuel tax that would, in principle, gradually cap oil consumption is unlikely to be implemented (despite having been formally approved since 1994). But whether a fuel tax would effectively reduce demand would depend on its magnitude and scope. Furthermore, local governments are reluctant to abolish road tolls in favour of a national fuel tax, because that would mean losing a significant source of revenues (a national fuel tax would be directly collected by the Ministry of Finance).

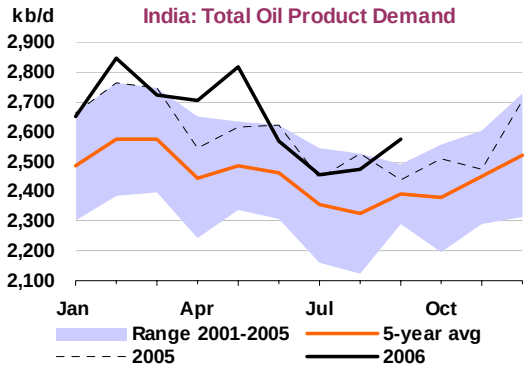
China Crude & Product Trade
(thousand barrels per day)

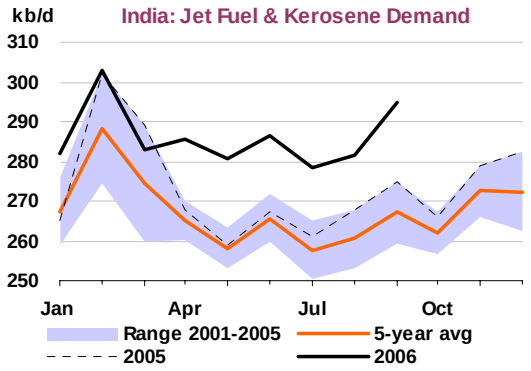
	2004	2005	4Q2005	1Q2006	2Q2006	3Q2006	Jul 06	Aug 06	Sep 06	Latest month vs. Aug 06	Latest month vs. Sep 05
Net Imports/(Exports) of:											
Crude Oil	2346	2387	2407	2878	2821	2757	2414	2618	3253	635	736
Products & Feedstocks	660	479	599	512	765	716	718	695	736	41	128
Gasoil/Diesel	43	-19	-3	-10	-14	-6	-12	-12	5	17	29
Gasoline	-125	-130	-55	-107	-56	-63	-52	-86	-51	35	23
Heavy Fuel Oil	506	418	402	406	522	575	624	578	519	-59	103
LPG	201	194	182	146	227	125	110	111	155	43	-89
Naphtha	-33	-35	1	-15	-36	-31	-23	-37	-32	5	-30
Jet & Kerosene	16	11	30	43	33	45	-4	70	69	-1	71
Other	51	40	42	49	90	72	74	71	71	0	20
Total	3007	2866	3006	3390	3586	3472	3132	3313	3989	675	864

Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

Other Non-OECD

Overall, despite a soaring economy, **India's** oil product demand remains comparatively subdued, although higher than average in September. Gasoline and diesel adulteration with kerosene can somewhat distort data (see report dated 11 August 2006), but companies have reportedly begun cracking down on adulteration at terminals with the help of a simple kit that allows visual verification. The combination of administered retail prices – which encourage refiners to export rather than supply the domestic market in order to minimize their losses – and expanding refining capacity suggests that India is on the way to becoming a major oil product exporter. The country is expected to ship abroad as much as 2 mb/d of products by 2012, according to some estimates (that is, three times as much as current levels).





Naphtha exports, which remain strong, are a case in point and provide further evidence of structurally weak domestic demand and increasing refining capacity. In the year to August, naphtha exports averaged 96 kb/d, compared with 70 kb/d during the same period in the previous year. Naphtha, usually used as a refining, petrochemical and fertilizer feedstock as well as to produce electricity, is increasingly substituted by liquefied natural gas.

An exception to this subdued demand picture is jet fuel, driven by a booming aviation sector. In addition, it should be noted that jet fuel prices are set by companies, not by the government (although taxes are as high as 30%). Still, the sector is witnessing significant changes: in early October, privately-held Reliance Industries secured a contract to manage the fuel farm and refuelling equipment at Hyderabad's new international airport. Although the fuelling infrastructure of the country's main hubs (Mumbai and Delhi) is still controlled by the state-owned oil companies, Reliance's foray signals a departure of prevailing practices and suggests that the government's Ministry of Civil Aviation is keen to encourage an open-access model.

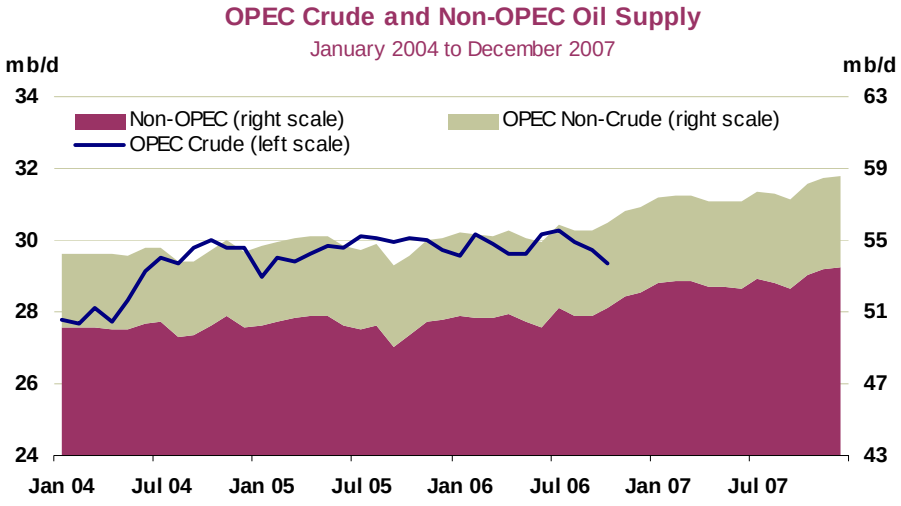
In the **FSU**, we anticipate strong growth in apparent demand in 4Q06 (defined as domestic crude supply + net crude imports). Natural gas tightness will lead to higher use of fuel oil and lower net crude oil exports. Crude exports, though, will likely increase again in December as export tariffs are reduced.

Finally, we have slightly adjusted the seasonality patterns of **Middle Eastern** demand. We have begun with two countries that together account for almost two-thirds of Middle-Eastern demand: Iran (26% of regional consumption) and Saudi Arabia (34%). Eventually we will expand our coverage to other major countries across all regions. Note that in the case of Saudi Arabia our calculations were based on monthly data from the *Joint Oil Data Initiative (JODI)* world database. These figures provide a good indication of seasonality and, with adjustments, are consistent with annual data.

SUPPLY

Summary

- **World oil supply** rose by 100 kb/d in October to 85.3 mb/d, increases centred on the OECD counteracting a near-300 kb/d drop in OPEC total oil supply. The global supply estimate for September was revised down by 165 kb/d, and the 3Q average by 60 kb/d, amid downward adjustments for Norway, Russia, Brazil and OPEC crude. Supply for 3Q was 1.3 mb/d higher than last year, the first quarter of above-1 mb/d growth since 2Q05. However, the comparison is skewed by events last year affecting Gulf of Mexico supply and Yukos/Sibneft Russian production.
- **Modest overall non-OPEC supply** adjustments for 2005-2007 mask more substantial regional changes. Baseline 2005 supply is revised up 50 kb/d to 50.3 mb/d after incorporating higher final monthly US production data. Estimates for 2006 are trimmed by 40 kb/d to 51.0 mb/d as weaker North Sea, Russia, China, Brazil and Angola supply counters upward adjustments for North America, Australia, Azerbaijan and non-OPEC biofuels. Total growth in 2006 averages nearly 0.7 mb/d after a near-static 2005. The 2007 estimate is revised up by 65 kb/d to 52.7 mb/d, growth accelerating to some 1.7 mb/d (+3.5%). North America, Australia and biofuels estimates account for next year's upward revision. OPEC NGL growth amounts to 0.2 mb/d in both 2006 and 2007.
- **OPEC crude supply** for October fell by 335 kb/d to 29.4 mb/d from a downward-revised 29.7 mb/d in September. Iraq, Saudi Arabia, Iran and Venezuela accounted for the bulk of October's decline, while there was a temporary lull in disruptions affecting Nigeria, allowing production there to rise 50 kb/d. OPEC effective spare capacity reached 2.2 mb/d, although a trimming of Iran's capacity estimate and ongoing marketability problems for heavy/sour crude place a ceiling on useable spare capacity.
- **A consultative meeting of the OPEC Conference** on 19/20 October in Doha decided to reduce OPEC-10 (excluding Iraq) production by 1.2 mb/d (from an OPEC estimate of 27.5 mb/d for September to 26.3 mb/d), beginning 1 November. The organisation cited high OECD crude stocks as signalling a fundamental market surplus. While itemising expected output cuts from each member, the agreement made no mention of new individual production quotas. This interim production arrangement will be reviewed at an extraordinary meeting of the OPEC conference on 14 December in Abuja, Nigeria.
- **The 'call on OPEC crude and stock change'** is trimmed by a further 0.3 mb/d for 3Q06 to 28.2 mb/d on weaker Asian demand. However, the call sees its sharpest 4Q rise since 2002 in the current quarter, reaching 29.8 mb/d, markedly above proposed OPEC production levels, amid lower expectations now for late-year non-OPEC supply. Next year's call is revised down by 0.1 mb/d to 28.3 mb/d, compared with a 2006 average of 28.8 mb/d.



All world oil supply figures for October discussed in this report are IEA estimates. Estimates for OPEC countries, Alaska 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

OPEC crude supply for October fell by 335 kb/d to 29.4 mb/d. This is compared with a downward-revised 29.7 mb/d for September, with both Iranian and Saudi production for that month adjusted down by 50 kb/d based on updated tanker data. Iraq, Saudi Arabia, Iran and Venezuela accounted for the bulk of October's decline. Iraqi supply remains constrained by pipeline and refinery offtake limitations, while Venezuela saw ongoing maintenance affecting Orinoco heavy oil operations. Provisional tanker sailings data point to lower supply from both Iran and Saudi Arabia in October. However, a temporary lull in disruptions affecting Nigeria allowed production there to rise 50 kb/d. OPEC effective spare capacity reached 2.2 mb/d, although a trimming of Iran's capacity estimate and ongoing marketability problems for heavy/sour crude place a ceiling on useable spare capacity.

OPEC Crude Production
(million barrels per day)

	1 July 2005 Target[1]	October 2006 Production	Sustainable Production Capacity[2]	Spare Capacity vs Oct 2006 Production	Production vs. Target
Algeria	0.89	1.35	1.39	0.04	0.46
Indonesia	1.45	0.86	0.95	0.10	-0.60
Iran	4.11	3.75	3.90	0.15	-0.36
Kuwait[3]	2.25	2.51	2.60	0.09	0.26
Libya	1.50	1.75	1.75	0.00	0.25
Nigeria	2.31	2.24	2.60	0.37	-0.07
Qatar	0.73	0.82	0.87	0.05	0.09
Saudi Arabia[3]	9.10	9.05	10.80	1.76	-0.05
UAE	2.44	2.63	2.70	0.07	0.19
Venezuela[4]	3.22	2.52	2.70	0.19	-0.71
Subtotal	**28.00**	**27.46**	**30.26**	**2.80**	**-0.54**
Iraq		1.92	2.50	0.59	
Total		**29.38**	**32.76**	**3.38**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*2.15)*	

1 Target production levels superceded by decision to cut output by 1.2 mb/d from 1 November 2006
2 Capacity levels can be reached within 30 days and sustained for 90 days
3 Includes half of Neutral Zone Production
4 Includes Orinoco extra-heavy oil assumed at 595 kb/d in October

Mention was made last month of the potential for lower OPEC supplies to increase OPEC spare capacity. Indeed, the effective spare capacity assessment did rise above 2 mb/d in October. This is a measure of potential physical supply capability, leaving aside notional spare capacity from Indonesia, Iraq, Nigeria and Venezuela, all of which have struggled to increase production on a sustained basis in recent months. We identify these four producers because there appear to be specific, physical impediments to increased production in the short term. However, we do not exclude from the effective spare capacity figure those volumes of oil which can be physically produced but which may be withheld from the market for strategic or market-related reasons. We would argue that while it is helpful to be aware of such constraints, they should not be confused with physical constraints to higher production. Oil which can be produced at the wellhead will usually find a buyer if it is priced competitively.

Notwithstanding the 335 kb/d drop in OPEC October supply, effective spare capacity increased by only around 200 kb/d, as we have adjusted down the Iranian capacity assessment to 3.9 mb/d. Ongoing field expansion projects appear to be slipping and recent Ministerial statements suggest accelerating decline rates and a lagging programme of gas injection to sustain reservoir pressure.

Consultative Meeting of the OPEC Conference, Doha, 19-20 October 2006

OPEC surprised the market with the announcement of a steeper-than-expected 1.2 mb/d cut in production to take effect from 1 November. The organisation is due to revisit what it has called an interim production arrangement at an extraordinary meeting on 14 December in Abuja, Nigeria. Saudi Arabia and other Arab Gulf producers have hinted that further cuts might be on the cards in Abuja if the organisation still sees supply continuing to run ahead of demand. While OECD inventory does now look more comfortable, this is in part a response to low supply-side flexibility elsewhere in the system, notably in OPEC spare capacity. It is also worth noting this report's upward revision to the 4Q 2006 'call on OPEC crude and stock change' to 29.8 mb/d. Assuming Iraq at 2.0 mb/d, this implies a call on the OPEC-10 of 27.8 mb/d, close to September supply but well above lower October, and potentially also November, production.

A degree of ambiguity hangs over the latest decision, since the meeting avoided allocating new individual production quotas *per se*. An expected production cut from each member was itemised, although the baseline from which such cuts were calculated remained unclear. The table below suggests that, for most producers, the baseline was the OPEC Secretariat's assessment of September production, based on third-party estimates. However, Iran, Nigeria and Venezuela's shares of the proposed cut appear to have been benchmarked on their existing quotas, which stand markedly higher than recent production. From OPEC's perspective, the continuing discrepancy between quota and attainable production capacity for a number of members appears to have been a price worth paying in exchange for unanimity over cuts in prompt supply.

OPEC Proposed Cuts from 1 November
(thousand barrels per day)

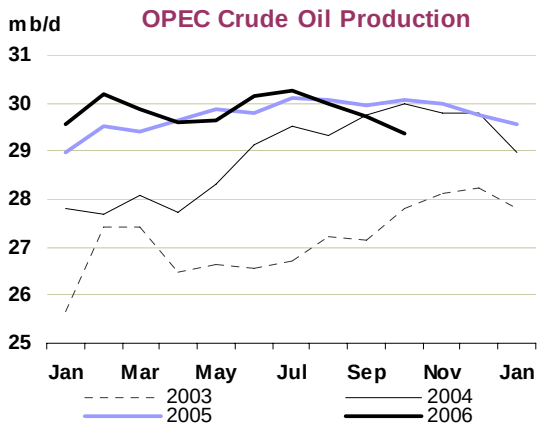
	Announced Cut	OPEC Secretariat Estimate of Sep Production	Implied % Cut	Existing Quota	Implied % Cut
Algeria	59	1375	4.3%	894	6.6%
Indonesia	39	883	4.4%	1451	2.7%
Iran	176	3875	4.5%	4110	4.3%
Kuwait	100	2510	4.0%	2247	4.5%
Libya	72	1723	4.2%	1500	4.8%
Nigeria	100	2205	4.5%	2306	4.3%
Qatar	35	833	4.2%	726	4.8%
Saudi Arabia	380	9087	4.2%	9099	4.2%
UAE	101	2568	3.9%	2444	4.1%
Venezuela	138	2546	5.4%	3223	4.3%
Total	**1200**	**27605**	4.3%	**28000**	4.3%

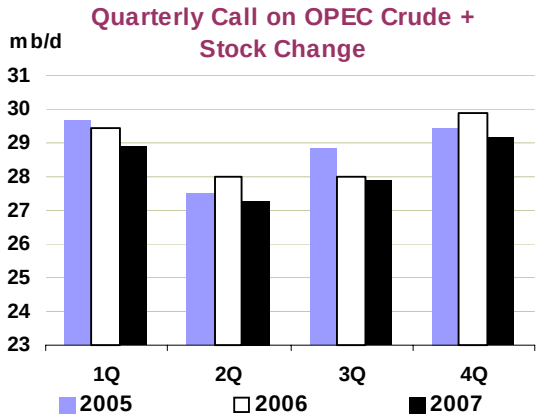
It is too early to gauge adherence to the proposed November cuts. Indonesia has said it will not comply and Nigeria apparently back-tracked on an earlier, unilateral commitment to curb October supply, raising question marks over its incentive to hold to November's pledge. Arab Gulf producers are seen as most likely to cut supply, while others see Iran, Venezuela and the North African producers' positions as being more ambiguous. Oilfield and refinery maintenance are seen as providing scope for temporary cuts, while spot sales and term contract tolerance levels may also be used to trim prompt supply. Weakening freight rates and provisional tanker sailing data for the first two weeks of November do suggest some slippage from October supply levels, possibly by as much as 200 kb/d compared with end-October. Depending upon compliance by non-Gulf members, some 600-900 kb/d might be removed from the market as a result of the Doha decision.

Iranian October supply is assessed at 3.75 mb/d, off by 100 kb/d from September. Weather related loading delays were evident at the head of the Gulf in October, and provisional tanker sailing data for the Middle East Gulf as a whole for October suggest a further fall in Iranian supply. State company NIOC has said that Iran's 176 kb/d contribution to the November OPEC production agreement will largely come from reduced spot sales into Europe and lower domestic refinery runs. A crude distillation unit (CDU) at the Abadan refinery is due for maintenance in November. Iran's OPEC governor also said European term sales were being trimmed by 5%, a level of flexibility afforded by most contracts. Moreover, if our October assessment for Iranian supply is correct, little in the way of further cuts might be necessary from Iran in November.

Against a difficult geopolitical backdrop regarding negotiations to resolve the Iranian nuclear crisis, prospects for imminent new investments to shore up Iranian capacity look remote. State-owned Petroiran took over operatorship of the troubled Azadegan project after the withdrawal of Japan's Inpex. This complex upstream project is widely believed to require foreign expertise and investment, yet plans for Total to take a stake do not appear to have advanced since the downgrading of Inpex's role to a minority 10%.

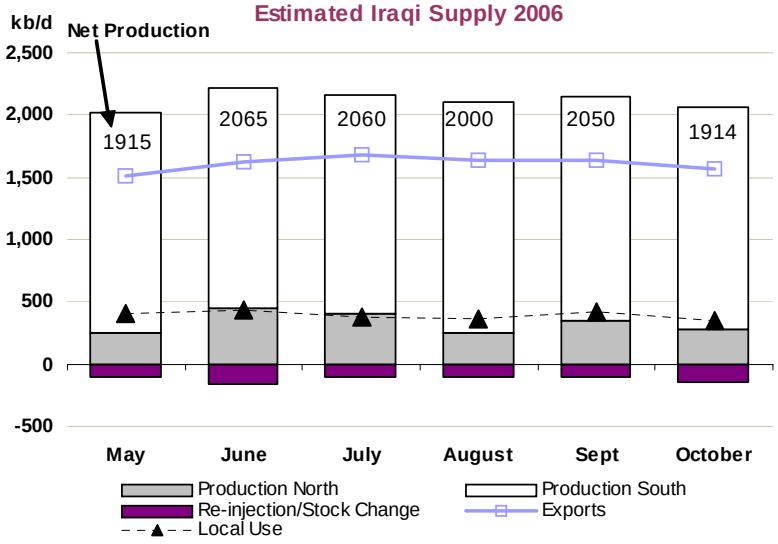
Ongoing downward drift in supply from **Saudi Arabia** was evident in October. Supply is assessed at 9.05 mb/d, including a 50% share of production from the partitioned neutral zone (PNZ) between Saudi Arabia and Kuwait. This is a net decline of 100 kb/d from a downward-adjusted 9.15 mb/d in September. The bulk of any further cuts accruing from the Kingdom's 380 kb/d share of the November production agreement seem likely to affect Asian buyers, who have been told that November liftings will be cut by 5-10%. US term buyers have been asked to volunteer for lower January allocations, although the impact here may be less keenly felt as refinery maintenance takes hold.





Hand in hand with a tightening in Saudi prompt supply however has been a series of announcements concerning Aramco's capacity expansion programme. After last month's fast-tracking of the Arab Heavy Manifa project, further heavy offshore supplies were signalled with accelerated progress on the Safaniyah project. Aramco also announced that feasibility studies on the Shaybah II project (+200 kb/d of gross Arab Extra Light capacity) are being fast-tracked. The Kingdom is aiming for installed capacity of 12.5 mb/d by 2010 and 13.1 mb/d by 2013. This report assesses current Saudi capacity (including PNZ but excluding condensates and Bahrain's 50% share of the Abu Safah field) at just under 11 mb/d.

Iraqi crude supply (net of field reinjection and deliveries into storage) dipped below 2.0 mb/d for the first time since May. Renewed attacks on the northbound Kirkuk-Ceyhan pipeline allowed only an average 70 kb/d to be delivered into tank at Ceyhan. The pipeline was still off-line in early November. Crude in storage was deemed insufficient to allow any exports from this outlet during the



month after some 55 kb/d had been exported from Ceyhan in September. Storage was reportedly still below 3 mb at end-October. Southern exports via Basrah were limited to 1.55 mb/d, 20 kb/d less than in September as bad weather interrupted tanker loadings. Some 15 kb/d was also moved cross-border into Syria, giving total October exports of 1.57 mb/d versus 1.64 mb/d last month. Preliminary schedules for November exports from Basrah suggest a rise to 1.6 mb/d, although again this will be dependent on uninterrupted loadings.

October refinery operations are also assessed to have remained low, with utilisation rates at Iraq's 710 kb/d of capacity restricted to 44%. Power outages kept the Baiji refinery out of operation for much of the month. In all, domestic crude use is estimated at 345 kb/d, giving a net Iraqi crude supply level of 1.91 mb/d.

Nigerian supply in October is estimated to have risen 50 kb/d compared with September and averaged 2.24 mb/d. We assess some 624 kb/d of production was shut-in during October, including nearly 550 kb/d of long-standing, security-related outages affecting the offshore EA field and the Forcados and Escravos crude streams. In addition, October saw short-lived disruptions affecting Bonny Light production (45 kb/d on average) and a now-completed spell of maintenance at the Antan field which removed an average 35 kb/d from October supply. The apparent rise in wellhead production coincides with preliminary indications of higher export liftings from Nigeria in October, despite earlier claims made before the OPEC meeting that a 5% cut would be made. Crude runs at Nigeria's only operating refinery, Port Harcourt, are assessed at below 200 kb/d.

Preliminary indications of tanker loadings from Nigeria for November and December do suggest a cut in exports, although there remains the potential for additional volumes to be made available, as occurred in October. However, necessity may dictate lower volumes in November. Resumed supply from shuttered Bonny Light facilities in early November was quickly countered by renewed security problems which, at writing, have caused the shut-in of 50 kb/d of Brass River crude at Agip's Tebidaba flow station in Bayelsa state. Indeed the US consulate in Lagos warned in early November of plans for concerted attacks on Niger Delta oil facilities during the first part of the month. Ethnic tensions are expected to remain a key feature in the run up to elections in April 2007.

Venezuelan crude supply is estimated to have slipped by 35 kb/d in October to 2.52 mb/d, albeit in part due to the late-month start of scheduled maintenance at the Sincor heavy crude upgrader. State oil company PDVSA said in early November that most of Venezuela's 138 kb/d cut in production would come from upgraded heavy oil deriving from the Orinoco heavy oil belt, or Faja. Ongoing maintenance at Sincor could trim some 90 kb/d from supply, while the other three heavy oil ventures will reportedly be asked to trim output by a collective 50 kb/d. Notwithstanding scheduled cuts, several reports emerged in October citing contractor and service company sources as saying that upstream investment still lags the levels needed to sustain production.

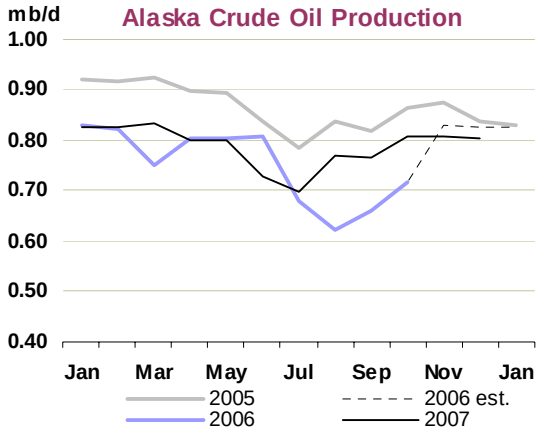
There were reports in October of Singaporean and Japanese power utilities switching to alternative fuel supplies, including fuel oil, bitumen and petroleum coke, after Venezuela's announcement that production of Orimulsion boiler fuel would cease from January 2007. Orimulsion supply, which peaked around 110 kb/d in 2002, is now estimated at around 40 kb/d and is included in this report under the OPEC NGL and non-conventional oil category.

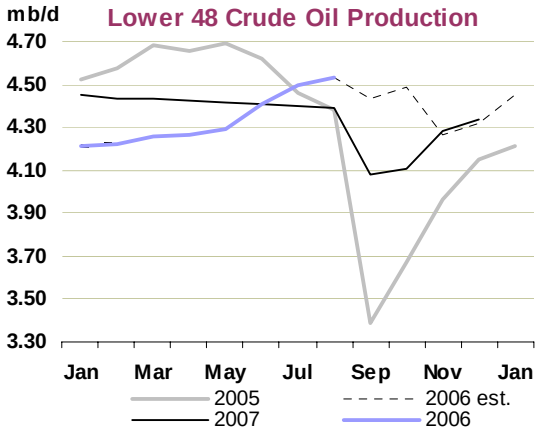
OECD

North America

US – Alaska October actual, others estimated: US oil supply has been revised up by 50 kb/d for 2005, 35 kb/d for 2006 and 65 kb/d for 2007. It now averages 7.32 mb/d, 7.36 mb/d and 7.46 mb/d for the three years respectively, down from 7.66 mb/d in 2004. Crude oil comprises over 5.1 mb/d of the US oil total, with 1.7-1.8 mb/d coming from NGL and 400-500 kb/d from oxygenates and other fuel additives. The main revisions are discussed below.

Alaskan production remained constrained in October as high winds and flooding impeded recovery from the Prudhoe Bay fields after earlier pipeline outages, and adverse weather also affected October operations on the TransAlaska pipeline. Total Alakan crude production averaged 716 kb/d, with Prudhoe Bay NGL contributing a further 38 kb/d. Although crude was up by some 55 kb/d compared with September, output was nearly 100 kb/d less than this report had predicted last month. Nonetheless, shortfalls versus the earlier projection are thought likely to prove temporary, with Prudhoe crude output having recovered close to anticipated 360 kb/d levels by early November.

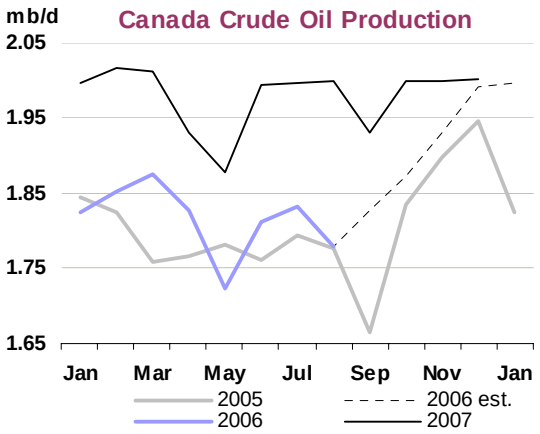


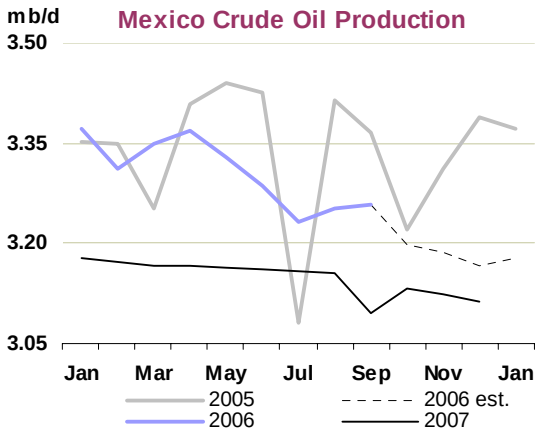


Recent supply data for California (July) and state-specific production data for June came in at or above this report's expectations. With less than one month of the traditional hurricane season left to run, Gulf of Mexico (GOM) supply disruptions in 2006 to date have been negligible. This is in stark contrast to the widespread destruction seen in 2005. At the risk of tempting fate, projected GOM supply may be subject to renewed upward revision next month if November passes uneventfully.

Canada – August actual: Total Canadian oil output reached 3.21 mb/d in August, up 55 kb/d from July. Continued increases in NGL and synthetic crude output outpaced weaker offshore east coast supply. With the latter region now expected to show sustained recovery through end-year, and continued growth expected from the Alberta oilsands and NGL, oil production could reach 3.85 mb/d by end-year. The return of Newfoundland's offshore Terra Nova field in November after extended maintenance combines with an upward adjustment to production from Syncrude Inc's heavy crude upgrader. This now appears to have attained 350 kb/d capacity operating rates well before the 2007 timeline previously seen by this report. In all, Canadian oil supply is revised up by 30 kb/d in 2006 and by 40 kb/d for 2007, averaging 3.2 mb/d and 3.4 mb/d respectively. Conventional crude accounts for 1.85 mb/d and 1.98 mb/d of total supply in those two years.

Prospects for oilsands production growth will depend in part on available pipeline capacity feeding the US Midwest and Gulf Coasts and Canada's Pacific Coast. Enbridge announced that the 400 kb/d Gateway pipeline project feeding Asian and Californian markets has been put on the back burner, with completion deferred from 2010 to 2012-2014. However Enbridge's pipeline expansions feeding the US are being accelerated and expanded.

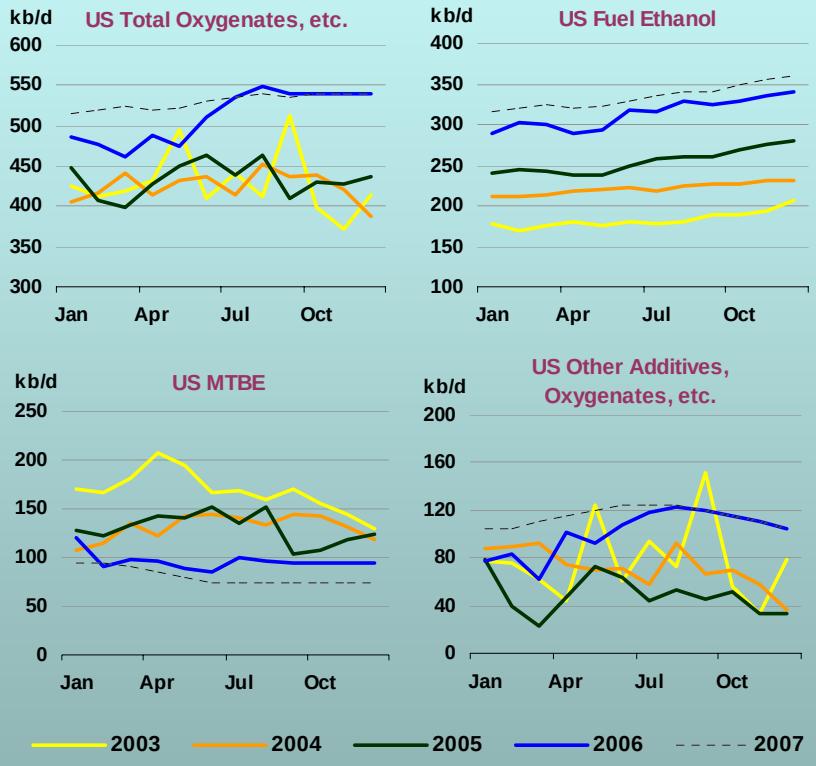




Mexico – September actual: Mexican crude production has again been revised up, with higher-than-expected September output feeding through to boost production for the period through mid-2007 by an average of 20 kb/d. The absence of September hurricane outages in part explains the higher baseline. September crude exports however were down by 100 kb/d on August at 1.68 mb/d, with exports to the Americas reduced but higher sailings destined for Europe and Asia. Mexican sources seem to be backtracking from earlier, more optimistic prognoses for production in 2007, and this report persists with a forecast of net decline of 120 kb/d for Mexican oil production in 2007. Crude averages 3.28 mb/d in 2006 and 3.15 mb/d in 2007.

US Revisions Centre on 2005 Baseline, and 'Other Supply'

Final 2005 monthly US production data by state became available via the EIA's Petroleum Supply Annual (PSA) just as last month's *Oil Market Report* went to press. Revisions for 2005 incorporated this month show an average 55 kb/d upward revision due to PSA data, with around 25 kb/d of this due to upward revisions to GOM production data. Original estimates for GOM production in October and November 2005 in particular look to have been too low, to the tune of 190 kb/d and 65 kb/d respectively. Monthly storm outage adjustments for 2005-2007 have been adjusted down accordingly. However, for now there are offsetting downward adjustments for supply in 2007 which result in GOM production being revised down by an average 60 kb/d for the year. Production from the Mad Dog, Genghis Khan and Constitution/Ticondera fields now appears to be running below levels assumed earlier by this report and this is carried through the forecast. Moreover, we have pushed back start-up of the 200 kb/d capacity Atlantis field from April to August 2007 following reports that partial re-design of subsea manifolds has been required following the problems experienced with the Thunder Horse development.

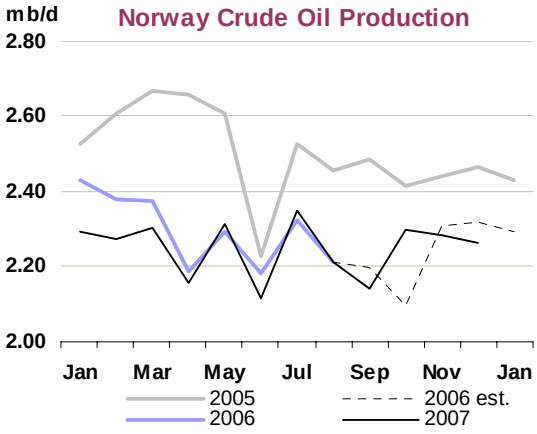


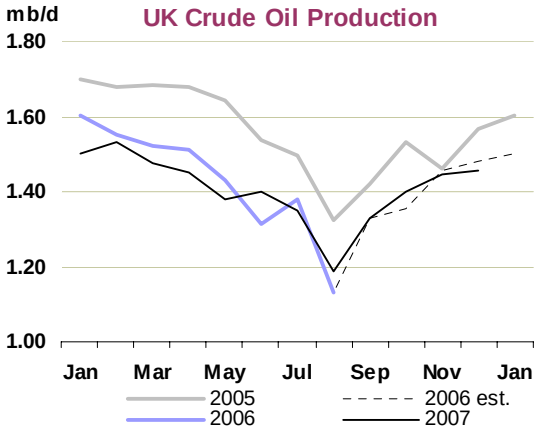
The sharp build in US "other supply" seen so far in 2006 leads this month to a marked upward revision to forecast supply from this category. The exception is MTBE, production of which fell early in 2006, but appears now to have stabilised close to 100 kb/d. US MTBE output is forecast to decline further with its eradication from the US gasoline pool, although baseload supply of around 70-80 kb/d is retained in the forecast, assuming that major existing facilities see continued opportunities to export on an economic basis. Rising production of ethanol and other fuel oxygenates and additives has coincided with tightening US motor fuel specifications and the removal of liability protection for MTBE. Indeed, US supply of ethanol and other biofuels may be subject to further upward revision if 2006 trends are replicated. For now, however, an upward adjustment of nearly 100 kb/d has been applied to supply from 4Q 2006 onwards.

North Sea

Norway – August actual, September provisional: August and September production came in below this report's expectations, total oil output dropping to 2.61 mb/d in September. Output is unlikely to have risen markedly in October, with extensive outages affecting production from the Snorre, Troll, Heidrun, Vigdis, Oseberg, Braje, Njord and Draugen fields. This derived in part from adverse weather, but also from faulty lifeboat systems in an echo of problems which affected the Vesslefrikk field in 2005. At peak in the third week of October some 340 kb/d was shut-in. However, the problems have been short-lived and total oil production is expected to recover to 2.9 mb/d in November and December (crude oil 2.3 mb/d). Forecast Oseberg system production has been trimmed by some 20 kb/d to avoid double counting supplies from satellite field developments.

Production at the Fram East development in the Troll system began on schedule on 30 October and should build to peak output of 45 kb/d. The Norwegian national budget for 2007 is based on a forecast of liquids production rising to 3.0 mb/d from 2.8 mb/d in 2006. This report retains a more



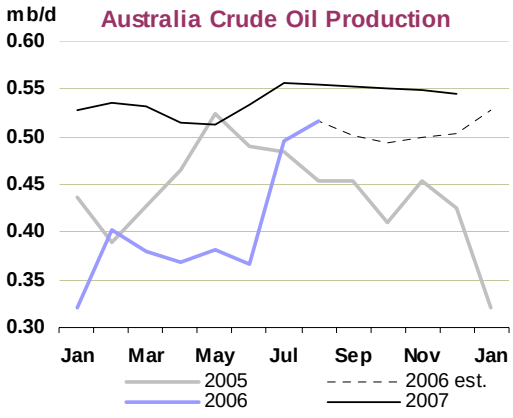


conservative outlook, with supply reaching 2.85 mb/d in 2007 from 2.8 mb/d in 2006.

UK – August actual: Third quarter 2006 UK production is dragged down by August data which came in 150 kb/d below expectation, reflecting heavier-than-expected maintenance outages. However, North Sea loading schedules point towards sharp UK sector recovery for the September to November period. Nexen is due to begin production from the Buzzard field this month, with two scheduled cargoes suggesting initial production of 35-40 kb/d. There is some uncertainty over Buzzard's likely production plateau for 2007, some reports suggesting 210 kb/d and others only 100 kb/d. Recent indications are that Buzzard contains markedly more hydrogen sulphide (H2S) than originally anticipated, which may affect offtake volumes. This report assumes initial output limited to 100 kb/d while production testing is carried out, acknowledging that this may subsequently prove to be overly pessimistic. If so, the projection of a largely flat UK liquids production profile at 1.7 mb/d may also be subject to upward revision.

Pacific

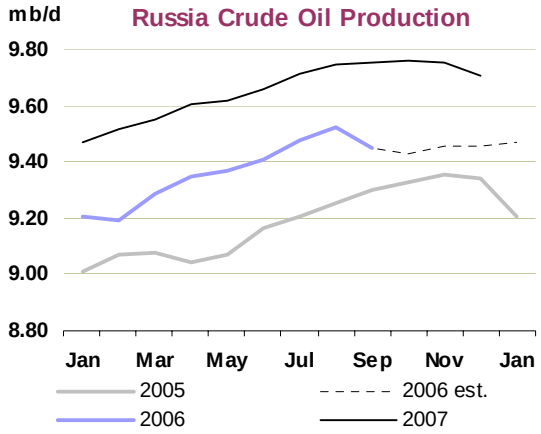
Australia – August actual: August oil production was revised up by 60 kb/d from last month's report with Carnarvon Basin crude/condensate output 45 kb/d higher and total NGL some 15 kb/d ahead of expectation. Forecast NGL production is revised up a similar amount after October's delayed start up at the BassGas facility. October outages affecting the Enfield and Cliff Head fields dampened prospects for August's crude revisions being carried forward in full. Indeed, water breakthrough at Enfield is likely to defer peak production of 100 kb/d until 2007. Nonetheless, higher baseload supply elsewhere in the Carnarvon Basin underpin a 15 kb/d upward revision to crude for 2007. Australian liquids supply is expected to average 640 kb/d in 2007 compared with 530 kb/d in 2006 and 540 kb/d in 2005. Aside from Enfield, main increments in 2007 come via expanded supply from the Puffin and Cliff Head developments.

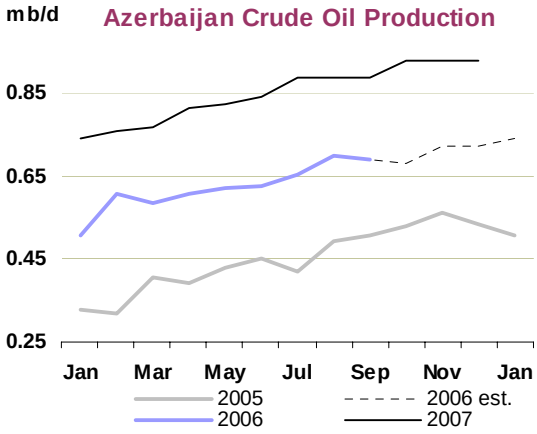


Former Soviet Union (FSU)

Russia – September actual, October provisional: The graph below clearly shows the levelling off in Russian production growth evident in September and October. Forecast supply for 2006 and 2007 has been revised down by around 40 kb/d, with the reductions focussed in 4Q06 and 1Q07. However, aggregate 2006 supply remains around 9.7 mb/d (2.2% annual growth) with 10.0 mb/d expected for 2007 (+2.9%).

TNK-BP production has been adjusted down to exclude 120 kb/d of output from the Udmurtneft subsidiary recently sold to state-controlled producer Rosneft. Rosneft expects to sustain growth in supply from Udmurtneft, but we have retained for now a rather lower growth target for Rosneft of some 7%, assessed before Udmurtneft was purchased. The downgrade in expected Russian supply also follows renewed delays in supply build-up at the recently inaugurated De Kastri export terminal for the Sakhalin 1 project. Around 45 kb/d has been cut from 4Q supply here and 25 kb/d in 1Q07, as extensive environmental checks on the neighbouring Sakhalin 2 project have reportedly prevented the De Kastri terminal from receiving necessary permits to begin commercial operations. Sakhalin 1 is expected to eventually produce 250 kb/d, although we have retained a conservative build-up profile, with peak only occurring in 2008, to reflect the uncertainties facing the project.





In September, **net FSU exports** fell back by 250 kb/d from August to 8.16 mb/d (although this was 360 kb/d above September 2005 levels). As noted last month, the reduction was driven by lower products exports, which fell by 250 kb/d to 2.36 mb/d. Overall, crude exports remained close to August levels, with higher shipments via Baltic ports and the Druzhba pipeline counteracting lower exports from the Black Sea and via the BTC pipeline. Capacity of the BPS pipeline which feeds Primorsk is due to be expanded from 1.3 mb/d to 1.4 mb/d by end-year, although scheduled liftings from Primorsk are likely to slip back in November as colder weather increases crude viscosity. Primorsk shipments are also prone to delay over the winter months, as the port becomes ice-bound.

Early indications for October/November suggest FSU crude and products exports constrained by:

- higher Russian crude and product export duties in force from 1 October;
- maintenance work affecting Azerbaijan's ACG fields (October);
- closure of the Baku-Supsa crude pipeline affecting November and December Azeri Light shipments via this route;
- delays affecting full-scale exports of Sokol crude from the Sakhalin 1 project's De Kastri terminal (4Q exports may struggle to exceed the initial 25 kb/d exported in October);
- a general Russian policy shift aimed at refining more crude domestically;
- a parallel trend whereby increased volumes of oil products are retained within Russia in the winter months to release natural gas for export.

However, the lagged impact of the late summer/autumn decline in oil prices is likely to see a 20-25% cut in Russian export duties from 1 December. This in turn could see, *ceteris paribus*, an increased economic incentive for a contra-seasonal rise in December exports.

FSU Net Exports of Crude & Petroleum Products

(million barrels per day)

	2004	2005	4Q2005	1Q2006	2Q2006	3Q2006	Jul 06	Aug 06	Sep 06	Latest month vs. Aug 06	Latest month vs. Sep 05
Crude											
Black Sea	2.20	2.27	2.23	2.25	2.26	2.27	2.29	2.36	2.15	-0.21	-0.18
Baltic	1.51	1.59	1.55	1.54	1.73	1.55	1.59	1.42	1.64	0.23	0.06
Arctic/FarEast	0.25	0.19	0.17	0.10	0.11	0.20	0.17	0.24	0.20	-0.05	-0.02
BTC	0.00	0.00	0.00	0.00	0.01	0.22	0.18	0.27	0.22	-0.05	0.22
Crude Seaborne	3.96	4.05	3.95	3.89	4.11	4.24	4.24	4.29	4.20	-0.09	0.08
Druzhba Pipeline	1.10	1.15	1.23	1.20	1.16	1.23	1.29	1.17	1.23	0.06	0.11
Other Routes	0.23	0.25	0.26	0.31	0.38	0.37	0.36	0.37	0.38	0.01	0.14
Total Crude Exports	5.29	5.45	5.44	5.39	5.65	5.85	5.89	5.83	5.82	-0.01	0.32
Of Which: Transneft	3.76	4.04	4.07	4.05	4.23	4.21	4.26	4.11	4.26	0.15	0.16
Products											
Fuel oil	0.90	0.93	1.04	0.87	1.05	0.94	0.94	0.99	0.88	-0.11	-0.09
Gasoil	0.84	0.87	0.95	1.01	0.95	0.94	0.91	0.95	0.95	-0.01	0.12
Other Products	0.46	0.58	0.60	0.60	0.70	0.63	0.70	0.66	0.53	-0.13	0.00
Total Product	2.19	2.38	2.58	2.47	2.69	2.50	2.54	2.61	2.36	-0.25	0.02
Total Exports	7.48	7.83	8.02	7.87	8.34	8.35	8.43	8.44	8.18	-0.26	0.35
Imports	0.01	0.02	0.02	0.03	0.03	0.03	0.05	0.03	0.01	-0.02	-0.02
Net Exports	7.47	7.81	8.00	7.84	8.31	8.32	8.38	8.41	8.16	-0.25	0.36

Sources: Petro-Logistics, IEA estimates

Note: Transneft data has been revised to exclude Russian CPC volumes.

Azerbaijan – September actual: September again saw production from the offshore Azeri-Chirag-Guneshli (ACG) fields exceeding this report's projections, at some 530 kb/d. As noted last month, October ACG supply was affected by maintenance, although early start-up at the East Azeri field did mitigate the downturn in ACG supply. Notwithstanding East Azeri, there is the potential for supplies of Azeri Light to be impeded throughout the fourth quarter by the closure of the Baku-Supsa pipeline due to corrosion problems. Supplies are due to be re-routed via the nearby BTC pipeline, but this report caps Azeri Light output at 530 kb/d, and total Azerbaijan production at 730 kb/d, through end-year. BP also announced that liquids production from the Shah Deniz gas development has been delayed into November from October due to well completion taking longer than expected. However, despite these setbacks, Azeri production has been revised up by 10-15 kb/d for both 2006 and 2007. There may be further upside for the Azerbaijan forecast in 2007 if BP's latest ACG output guidance of 700 kb/d for 2007 is realised, compared with this report's more conservative projection of 665 kb/d.

Biofuels Revisions

In addition to the changes to US ethanol supply for 2006 and 2007 (discussed under 'US Revisions Centre on 2005 Baseline', and 'Other Supply', above), we have also made substantial revisions to 'other biofuels' supply since our last update in the *Medium-Term Oil Market Report* published in July this year. Other biofuels, including ethanol and biodiesel for countries outside the US and Brazil, have been revised upwards by 25 kb/d for 2006 and 82 kb/d for 2007. The main changes have been made to European ethanol and biodiesel, following member countries' rapid expansions aimed at adhering to the European Union's ambitious biofuel-blending targets. Stronger 2007 growth is also now expected in China. Total 'other biofuels' supply is now estimated at 179 kb/d for 2006 and 344 kb/d for 2007. A further discussion and update on biofuels, along with more details, will be published in the report dated 18 January 2007.

Other Non-OPEC

Revisions to Other Non-OPEC Estimates

A 40 kb/d downward revision for 2006 non-OPEC supply this month is sandwiched between a 50 kb/d upward revision for 2005 and a 65 kb/d upward revision for 2007. Significant upward adjustments deriving from North America, Australia, Azerbaijan and biofuels have already been discussed above. So too have downward revisions from the North Sea and Russia.

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	2007	06 v 05	07 v 06	2005	2006	2007	06 v 05	07 v 06	2005	2006	2007	06 v 05	07 v 06
North America	14.09	14.21	14.35	0.12	0.13	14.14	14.29	14.45	0.15	0.16	0.05	0.08	0.11	0.03	0.03
Europe	5.60	5.30	5.35	-0.30	0.05	5.60	5.23	5.30	-0.37	0.07	0.00	-0.07	-0.05	-0.07	0.02
Pacific	0.58	0.56	0.65	-0.02	0.09	0.58	0.57	0.68	-0.01	0.11	0.00	0.01	0.03	0.01	0.02
Total OECD	**20.28**	**20.08**	**20.35**	**-0.20**	**0.27**	**20.33**	**20.10**	**20.44**	**-0.23**	**0.34**	**0.05**	**0.02**	**0.09**	**-0.03**	**0.07**
Former USSR	11.64	12.07	12.60	0.43	0.53	11.64	12.04	12.58	0.40	0.53	0.00	-0.02	-0.02	-0.02	0.00
Europe	0.16	0.15	0.13	-0.01	-0.01	0.16	0.15	0.13	-0.01	-0.01	0.00	0.00	0.00	0.00	0.00
China	3.62	3.70	3.73	0.08	0.02	3.62	3.69	3.72	0.07	0.03	0.00	-0.01	-0.01	-0.01	0.00
Other Asia	2.68	2.70	2.73	0.02	0.03	2.68	2.70	2.73	0.02	0.03	0.00	0.00	0.00	0.00	0.00
Latin America	4.30	4.48	4.74	0.18	0.26	4.30	4.44	4.66	0.15	0.22	0.00	-0.04	-0.08	-0.04	-0.04
Middle East	1.86	1.75	1.69	-0.12	-0.06	1.86	1.75	1.69	-0.12	-0.06	0.00	0.00	0.00	0.00	0.00
Africa	3.72	4.03	4.53	0.32	0.50	3.72	4.02	4.53	0.30	0.51	0.00	-0.01	0.00	-0.01	0.01
Total Non-OECD	**27.97**	**28.87**	**30.15**	**0.90**	**1.27**	**27.97**	**28.79**	**30.04**	**0.81**	**1.25**	**0.00**	**-0.09**	**-0.11**	**-0.09**	**-0.02**
Processing Gains	1.86	1.90	1.92	0.04	0.02	1.86	1.90	1.92	0.04	0.02	0.00	0.00	0.00	0.00	0.00
Other Biofuels	0.12	0.15	0.26	0.04	0.11	0.12	0.18	0.34	0.06	0.17	0.00	0.03	0.08	0.03	0.06
Total Non-OPEC	**50.23**	**51.00**	**52.68**	**0.77**	**1.67**	**50.28**	**50.96**	**52.74**	**0.68**	**1.78**	**0.05**	**-0.04**	**0.06**	**-0.09**	**0.10**

OMR = Oil Market Report

Elsewhere, **Chinese** production is revised down by 10 kb/d for 2006 and 2007. September production was 70 kb/d below expectation, largely due to weaker onshore supply. The impact of a lower baseline tapers off through 2007 however, as higher offshore production from new wells at the Huizhou, Caofeidian and Zou Dong fields is now expected. Chinese domestic supply growth is seen slowing to 30 kb/d in 2007, after growth of nearly 100 kb/d per year during 2004-2006. Production next year averages 3.74 mb/d.

Brazilian crude production is revised down by between 50-100 kb/d for the 4Q06 through to 4Q07 period on the basis of a weaker September baseline deriving from preliminary Petrobras data. The company's end-year 2006 and 2007 targets have been revised down to 1.88 mb/d and 1.98 mb/d respectively, with this report's estimates being adjusted accordingly. Petrobras accounts for around 97% of Brazilian crude production which, despite these adjustments, is expected to grow by 185 kb/d in 2007.

OECD STOCKS

Summary

- **Total OECD industry oil inventories** built by 29 mb in September to 2,759 mb and stand 118 mb higher than last year. Increases in North American distillate and gasoline stocks, Pacific distillates as well as in 'other products' offset lower crude and 'other oils' inventories. Days of forward demand cover came to 55 days for the OECD as a whole, on par with August and two days higher than last year. Weekly data for the US and Japan, however, show a sharp downward correction in product stocks in October following reduced refinery activity due to maintenance as well as lower imports and robust demand.

- **The total third-quarter stock build** averaged 1.15 mb/d, or 106 mb, and is the highest 3Q increase since 1991. Stocks built in all regions, but the largest increases were seen in North America, and to a lesser extent, the Pacific. Higher product and 'other oils' inventories were partially offset by lower crude oil stocks.

Preliminary Industry Stock Change in September 2006 and Third Quarter 2006

(million barrels per day)

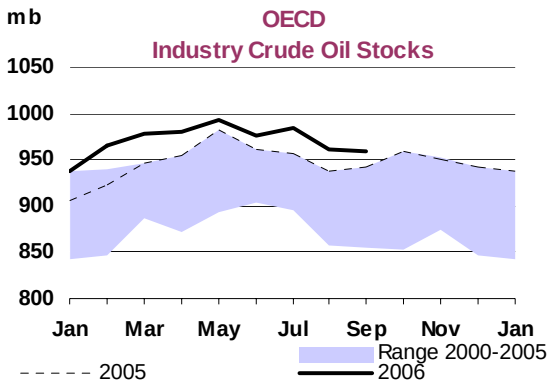
	September (preliminary)				*Third Quarter 2006*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.08**	**-0.33**	**0.12**	**-0.13**	**0.01**	**-0.16**	**-0.05**	**-0.20**
Gasoline	0.29	0.06	0.02	0.37	0.05	0.04	0.00	0.09
Distillates	0.41	-0.08	0.17	0.49	0.34	0.11	0.17	0.63
Residual Fuel Oil	0.01	0.03	-0.02	0.03	0.01	0.03	0.01	0.04
Other Products	0.10	0.00	0.14	0.25	0.23	0.05	0.14	0.42
Total Products	**0.81**	**0.02**	**0.31**	**1.13**	**0.63**	**0.23**	**0.32**	**1.18**
Other Oils[1]	-0.03	-0.03	0.01	-0.05	0.14	0.01	0.02	0.17
Total Oil	**0.86**	**-0.34**	**0.43**	**0.95**	**0.78**	**0.08**	**0.29**	**1.15**

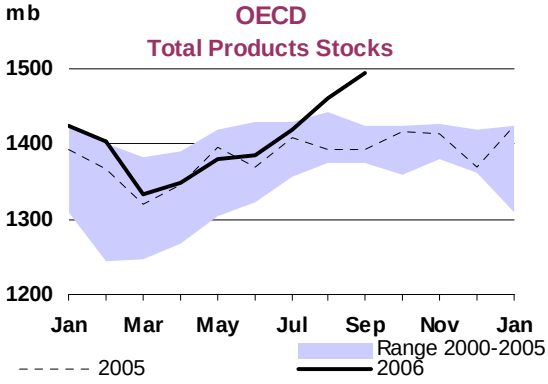
1 Other oils includes NGLs, feedstocks, and other hydrocarbons.

- **OECD crude oil stocks** fell by 4 mb in September to 958 mb, despite sharply lower refinery throughputs in all regions. A decline in European crude stocks mostly stemmed from France, where refinery runs reached their highest level in more than two years. Total OECD crude stocks stood 17 mb higher than last year as increasing stocks in North America and the Pacific were only partly offset by lower European inventories.

- **OECD industry middle distillate stocks** built by 15 mb in September to 584 mb, 49 mb higher than last year. The increase, as flagged in last month's report, came in the US and Japan, following high refinery runs and seasonally weak demand. According to weekly data, US distillate stocks fell sharply in October while Japanese stocks trended sideways, reviving concerns about supply adequacy in the event of a cold winter. In independent storage in Northwest Europe and Singapore, however, supplies are trending at the upper-end of their five-year range.

- **OECD industry gasoline stocks** increased by 11 mb in September, with North America again accounting for the majority of the change. US stocks built sharply following high refinery output, steady imports and seasonally slow demand. In October, however, maintenance-reduced refinery output was compounded by a drop in imports which reversed September's build.





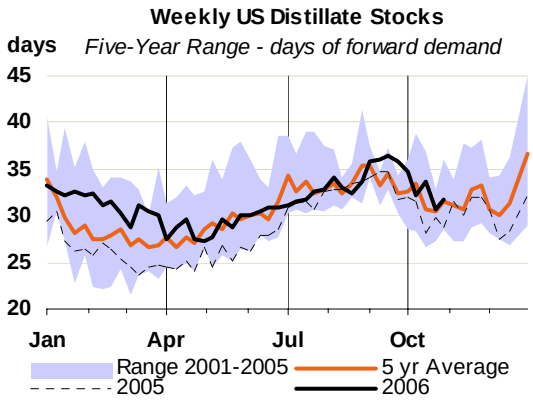
OECD Industry Stock Changes in September 2006

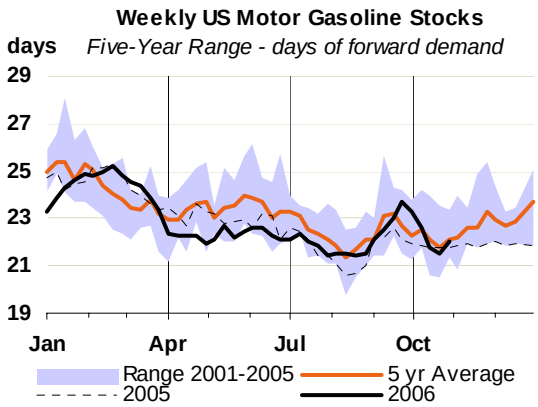
OECD North America

North American crude oil inventories built by 2.5 mb in September as an increase in Mexican stocks outpaced a small draw in the US. US refinery throughputs were running at relatively high levels in September, averaging 15.7 mb/d, but high imports stemmed the decline. Mexican throughputs were lower, supporting the stock build there. While no data is yet available for Canadian September crude stocks (or exports) and these are held unchanged, preliminary indications are that a 109 kb/d decline in throughputs only partly was offset by lower domestic production.

In October, US-50 crude stocks rebounded, building by about 6 mb. The increase followed a sharp drop in refinery runs, but was partly offset by lower imports. Four-week average throughputs fell by nearly 750 kb/d for the week ending 3 November to 15 mb/d, while imports averaged 10 mb/d, down 700 kb/d from September. At the same time, domestic US crude production rebounded by about 100 kb/d in October as Alaskan supplies recovered.

North American product stocks built by 24 mb in September, ending the month at 728 mb, 65 mb higher than last year. The US accounted for most of the changes as middle distillates built by 13 mb, gasoline by 8 mb and other products by 3 mb. The stock increases followed continued high refinery output and seasonally weaker autumn demand.

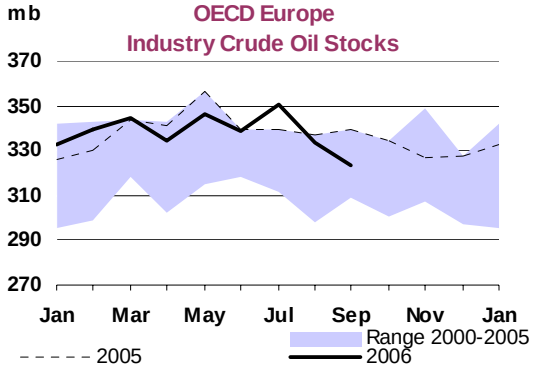




US-50 product stocks, however, fell sharply in October and early November, declining by 33 mb in total. Distillate stocks fell by 13 mb (both heating oil and diesel), gasoline inventories fell by 11 mb, while other products fell by 8 mb. Stock draws followed from a slowdown in throughputs (down by more than 700 kb/d from September) and were compounded by lower product imports (both gasoline and distillates). Preliminary indications of demand (based on four-week average data) show all products bar fuel oil stronger in October, and particularly distillates which were about 300 kb/d higher than September (7%). On a days-of-forward-demand basis, both gasoline and distillate stocks fell from their comfortable positions seen in September to at or below their five-year average by the week ending 3 November.

OECD Europe

European crude oil stocks fell by 10 mb in September, to 324 mb or 16 mb below last year. Most of the change came in France, where refinery throughputs were at their highest level this year. In the rest of Europe, crude demand fell in line with scheduled maintenance and lower refinery margins. At the same time, North Sea production rebounded and a narrow WTI/Brent differential limited spot arbitrage shipments out of the region. The shifting focus of refiners towards distillate production also reduced demand for gasoline-rich North Sea grades in favour of competing distillate-rich grades.

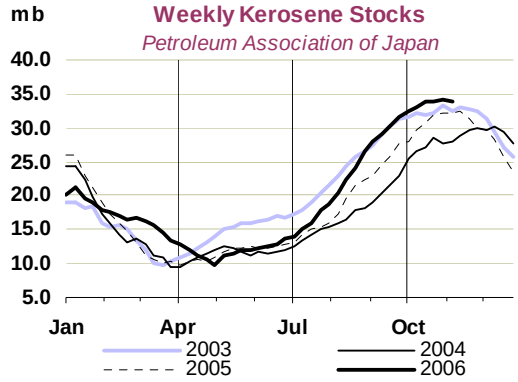


European product inventories were largely unchanged in September, closing only 0.5 mb higher than last month and 16 mb above last year. Gasoline added 2 mb, with builds in the UK and the

Netherlands, offsetting lower distillate inventories in France and the Netherlands. German industry stocks were relatively unchanged in September, despite sharply lower refinery throughputs (-268 kb/d) and continued strong inland deliveries of heating oil. However, a survey by MWV, the German oil industry association, pegged end-September German consumer heating oil stocks at 65% of capacity from 60% of capacity at the end of August. This is the highest level of stocks since November 2003. Preliminary data show that inland deliveries of heating oil and diesel were also strong in France. Mild October weather throughout most of Europe is likely to have further depressed demand.

OECD Pacific

In the Pacific, crude oil stocks built by 3.5 mb in September as levels in both Japan and Korea moved higher. In Japan, refinery throughputs moved lower in line with announced maintenance schedules. At the same time, crude imports were steady from August and amounts purchased by utilities lower. In October, onshore crude stocks added another 5 mb according to the Petroleum Association of Japan as refinery runs continued to slide, reaching their seasonal low-point. Korean stocks also built slightly in September, despite higher throughputs and lower imports. The increase was held in offshore vessels while onshore crude stocks were flat.



Pacific product inventories built by 9 mb in September to 212 mb, 21 mb higher than last year. The increase came entirely in Japan despite lower throughputs. Japanese refinery runs were 220 kb/d below August levels, but preliminary inland delivery data show extremely low domestic demand for all products (-11% year-on-year) supporting a stock build. At the same time, product (gasoil and jet) exports were high in September. Weekly data from the Petroleum Association of Japan show that total product stocks trended largely sideways in October. Kerosene stocks continued to edge higher, however, with preliminary data showing them rising to their highest level in 12 years (weekly data only go back to 2003) despite seasonal refinery maintenance. Korean product stocks were relatively unchanged in September. Higher refinery runs and lower exports were offset by lower imports and higher consumption.

OECD Inventory Position at End-September and Revisions to Preliminary Data

OECD total industry oil stocks closed September at 2,759 mb, 29 mb higher than last month and 118 mb higher than last year. In contrast to earlier in 2006, the year-on-year gain is now concentrated in product stocks rather than in crude. The main changes are in North American stocks, which are 90 mb higher than in 2005, but also Pacific stocks are trending above year-ago levels. Forward demand cover came to 55 days for the OECD as a whole, on par with August but two days higher than last year. On a regional basis, cover was 52 days for North America, 61 days for Europe and 52 days for the Pacific.

Year-on-Year OECD Industry Stock Comparisons for September 2006

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**24.3**	**-16.0**	**8.8**	**17.1**	**Total Oil**	**2.5**	**-0.2**	**2.8**	**1.7**
Total Products	64.8	16.0	20.7	101.5	*Versus 2004*	4.9	1.1	2.7	3.3
Other Oils[1]	0.4	-1.6	0.6	-0.6	*Versus 2003*	2.8	1.4	1.0	2.0
Total Oil	**89.5**	**-1.6**	**30.2**	**118.0**	**Total Products**	**2.0**	**1.0**	**2.1**	**1.7**
Versus 2004	139.6	6.4	32.6	178.5	*Versus 2004*	2.6	1.2	2.5	2.1
Versus 2003	130.2	25.8	3.0	158.9	*Versus 2003*	1.6	1.1	1.2	1.3

1 Includes feedstocks, NGLs and other hydrocarbons.

Revisions to preliminary August data averaged only 3 mb since last month's report, as downwardly revised crude stocks were offset by higher product inventories. Crude stocks were revised lower in Europe (-14 mb) following the official submissions of *Monthly Oil Statistics (MOS)*. The largest changes for product stocks also came in Europe, these being revised up by close to 18 mb. The bulk of the revision came in distillates, although all other product categories were revised higher. For the Pacific and North America, the largest revisions came in 'other oils' but the changes partly offset each other, leaving total OECD 'other oils' 5 mb lower than estimated in last month's report. July data were relatively unchanged.

Revisions versus 11 October 2006 Oil Market Report

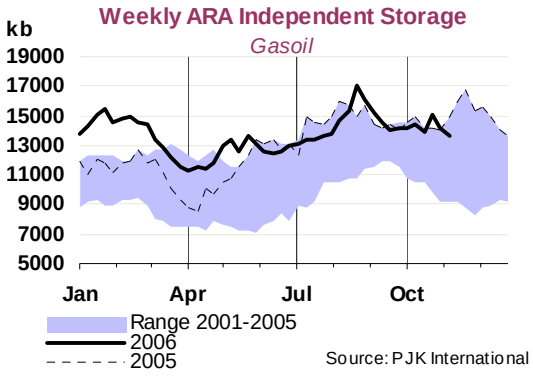
(million barrels)

	North America		*Europe*		*Pacific*		*OECD*	
	Jul 06	Aug 06	Jul 06	Aug 06	Jul 06	Aug 06	Jul 06	Aug 06
Crude Oil	**-0.4**	**2.9**	**1.2**	**-14.2**	**-0.2**	**0.5**	**0.6**	**-10.8**
Gasoline	0.8	2.1	0.1	3.8	0.0	-0.2	0.9	5.7
Distillates	-0.2	0.3	1.3	8.7	0.0	-0.9	1.1	8.1
Residual Fuel Oil	0.3	-0.1	-1.0	2.9	0.0	-0.4	-0.7	2.4
Other Products	-0.6	0.6	0.0	2.2	0.0	-0.2	-0.6	2.6
Total Products	**0.2**	**2.9**	**0.5**	**17.5**	**0.0**	**-1.6**	**0.7**	**18.8**
Other Oils[1]	-0.4	4.3	-1.3	-0.4	0.0	-8.5	-1.7	-4.6
Total Oil	**-0.6**	**10.0**	**0.4**	**2.9**	**-0.2**	**-9.6**	**-0.4**	**3.3**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons.

Recent Developments in ARA Independent Storage

Total oil product inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp area fell in early November, as heavy inflows of fuel oil failed to offset declines in other products, according to consultant PJ Kulsen. Fuel oil stocks built sharply in October, especially at the end of the month, as Russian material found no other outlets. The arbitrage from Europe to Asia was closed early in the month, leaving Northwest Europe heavily oversupplied. While Russian consumption increased following colder weather in October, Russian throughputs were higher following the implementation of a new tax structure, favouring product exports over crude, from 1 October. Unusually, cargoes from South America (Venezuela and Colombia) added to stocks.



Gasoil stocks moved lower in October but were supported by continued high inflows from the US, Asia, the Middle East Gulf and Scandinavia. Strong gasoil cracks relative to other products also encouraged refiners to maximize distillate production. Pre-winter buying reportedly continued at strong levels in Germany and other North European countries, as consumers were taking advantage of lower absolute prices for heating fuel. Deliveries into Germany and France were also supported by refinery maintenance and lower domestic supplies. Falling diesel exports from Belarus and Lithuania, because of refinery shutdowns, might reduce Baltic supplies in November.

Gasoline inventories also fell from end-September levels, but remain above their historical range. Continued strong shipments to the US and Africa outpaced inflows from Eastern Europe, the UK and France. A strong contango in NWE swap prices also encouraged the traders to keep product in storage.

Recent Developments in Singapore Stocks

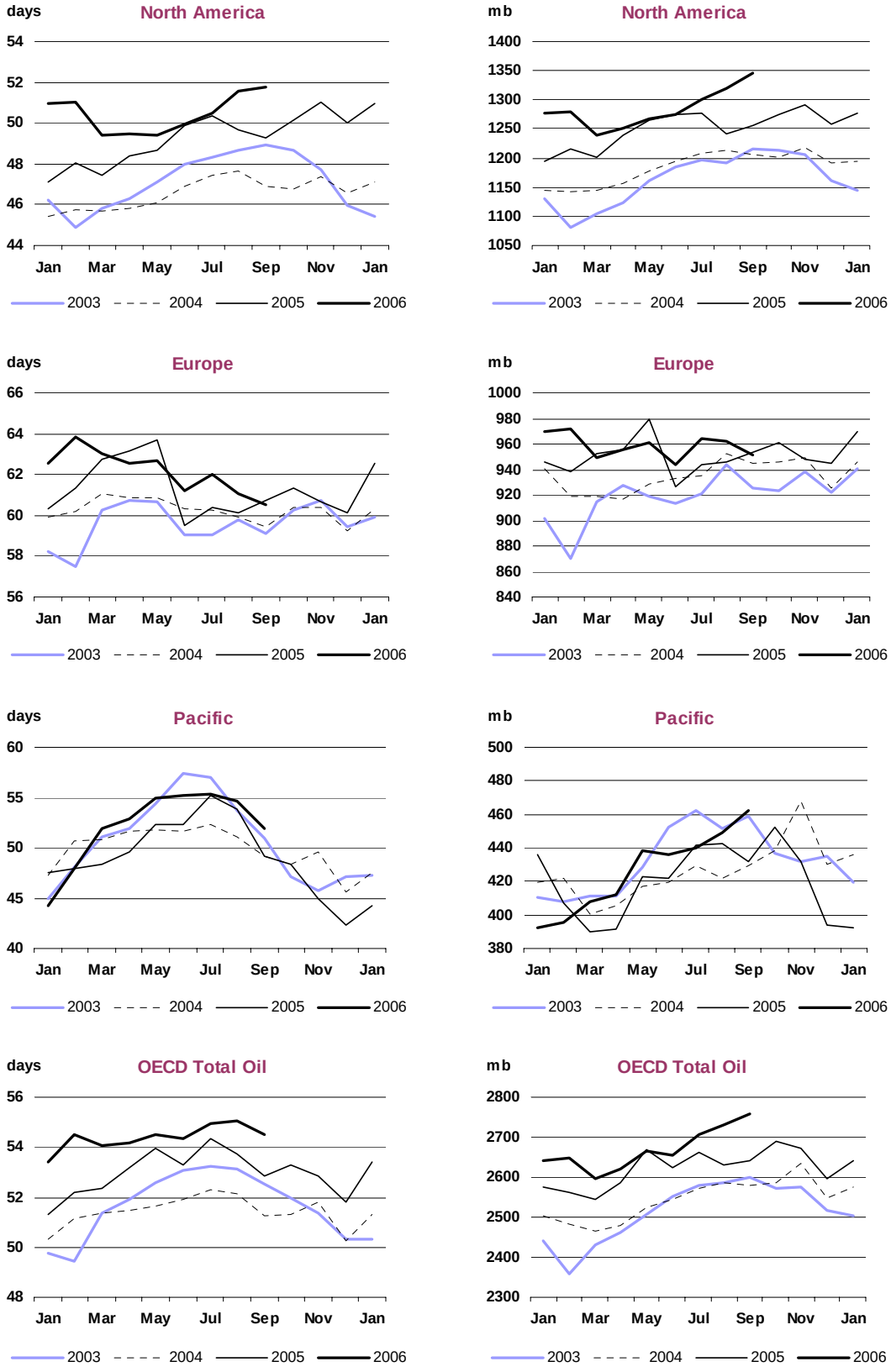
Fuel oil stocks in Singapore, as surveyed by International Enterprise, dipped in October as inflows of western material remained well below average and were concentrated in the latter part of the month. Fuel oil inventories temporarily dipped to the lowest level since last December, before rebounding sharply in the following week. Chinese purchases were lower than anticipated (down 30% on those of September), limiting any decline in stocks.

Middle distillate stocks rebounded in early October from the low level seen in the last week of September, adding more than 20% before trending sideways through the remainder of the month. Weak regional demand was partly offset by arbitrage shipments from South Korea to Northwest Europe. Light distillate stocks, including gasoline and naphtha, were unchanged for the month as a whole, although they fell sharply in the first part of the month. While naphtha supplies were ample (amid heavy Indian and Middle Eastern exports and lower demand in Korea due to cracker maintenance), gasoline found some support from increased buying from Indonesia and Vietnam.

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

An Update on Chinese Strategic Storage

As the first phase of the construction of the Chinese Strategic Storage is now completed, a lot of conflicting reports are being published regarding the possible commencement, and the rate, of filling of the reserves. The recent drop in international crude oil prices, seen as a deterrent to filling just a few months ago, and record high September crude net imports have further fuelled speculation that the strategic reserve is being filled (or according to one recent report, being leased to Sinopec). The trade data, coupled with the weight of reports, suggest that some storage fill is underway. Whether this is government or commercial stocks, however, remains unclear.

China started construction of four national oil reserve sites, located at Zhenhai and Aoshan in Zhejiang Province, Huangdao in Shandong Province and Dalian in Liaoning Province in 2003. Construction of the four sites is progressing according to schedule with major Chinese oil companies, Sinopec, Sinochem and PetroChina, in charge of construction. The combined capacity of the sites will be 16.2 million m^3 or just over 100 mb upon completion. This equates to 37 days of net crude oil imports, using average 2006 import levels and subtracting the oil (18 mb) already assumed added to tanks.

Summary of Chinese Strategic Storage Facilities

SPR Site	Province	Capacity		Stock Type	Scheduled Completion		Refinery
		Million Cubic Meters	Million Barrels		First Phase	Second Phase	
Zhenhai	Zhejiang	5.2	33	Crude	2005	2006	Sinopec
Aoshan	Zhejiang	5.0	31	Crude	2006-2008		Sinochem
Huangdao	Shandong	3.0	19	Crude	2007	2008	Sinopec
Dalian	Liaoning	3.0	19	Crude	2006-2008		PetroChina
Total		**16.2**	**102**				

With the first phase of construction of the Zhenhai site completed, traders and analysts are increasingly waiting for confirmation on how Beijing plans to operate the reserves. China has yet to establish a system for running its SPR. The government is in the midst of setting up a State Oil Reserve Centre that will serve the State Oil Reserve Office, established in 2003 within the National Development and Reform Commission's (NDRC) Energy Bureau. The Centre's management structure and operating rules are now being determined, as well as the sources of funds for oil purchases. As part of the process, the Chinese government is reviewing the experiences of IEA Member countries.

In the meantime, part of the storage space at Zhenhai (10 mb of the 33 mb available) has reportedly been leased out to state-run refiner and the builder of the site, Sinopec. No information is currently available on the terms of the deal, or whether Sinopec will be able to use the space once the National Oil Reserve Centre starts using it for government reserves.

Some trade reports estimate that up to 18 mb may have been, or will be added to the Zhenhai tanks in 2006. Assuming that the filling started in January (as implied by the two different apparent demand calculations), this equates to a fill rate of 50 kb/d. Recent trade statistics lend credence to speculation that filling has started. Chinese net imports of crude oil reached their highest level ever in September, averaging more than 3.2 mb/d, an increase of 635 kb/d from August. More interestingly, year-to-date imports are running 18% higher than the same period last year, while official refinery throughputs are only up 2.2% over the same period.

While the current implied low fill-rate should not be an issue for the markets, representing less than 0.06% of global demand, there remains concern that the rate of inflows will change. This uncertainty has the potential to add volatility to oil prices in the coming months. However, in contrast, the recent additions to the US SPR are a prime example of the impact of stock filling being lessened by the prior publication of fill rates, enabling the market to factor in the minor changes well ahead of physical delivery of the oil.

PRICES

Summary

- **Oil prices trended sideways in October,** but were lower than September on average, due to weak fundamentals and an uneventful hurricane season. OPEC's announcement of a 1.2 mb/d cut from November coincided with the end to the downtrend in prices, but uncertainty over its implementation contributed to market volatility, and caused benchmark crude prices to hover under $60/bbl for most of October and early November.

- **Most crudes traded sideways in October and early November**, though a renewed US interest in gasoline-rich crudes has seen differentials of Bonny Light and LLS increase. Dated Brent's relative weakness to WTI and Dubai has enabled outflows of Brent-related crudes both west and east. Weak seasonal demand for naphtha dragged down Asia-Pacific sweet benchmark Tapis, narrowing its premium to Dubai, and thus the regional sweet-sour spread.

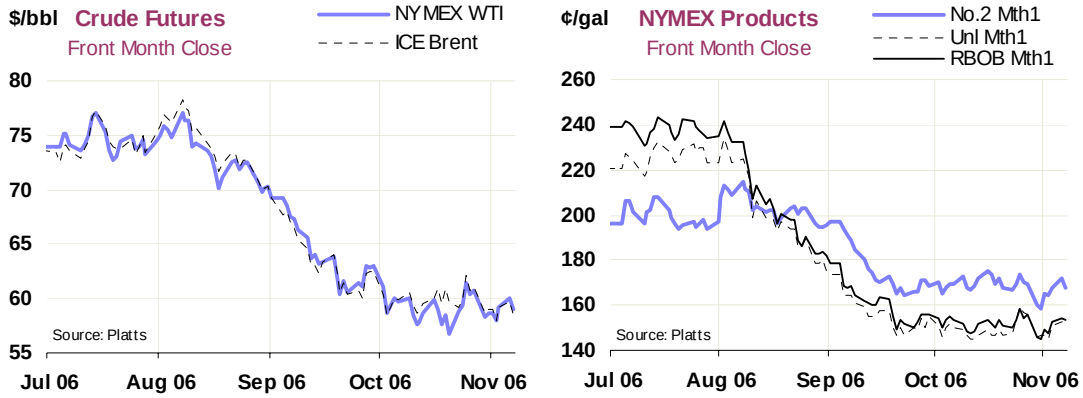
- **Refining margins increased in most regions**, supported by steady gasoline and middle distillate cracks. Anticipated economic run cuts – at least in Asia, where margins remain the weakest – only amounted to around 125 kb/d, but refinery maintenance took out an estimated 3.7 mb/d in October.

- **Product prices remained largely unchanged in October**, with mild weather in Europe and Asia balancing the impact of sharp product draws in the US. There, the adoption of ultra-low-sulphur diesel (ULSD) at the retail level apparently passed smoothly. Sustained European demand for distillates drew in barrels from the US, but also South Korea, which is faced with a surplus of diesel.

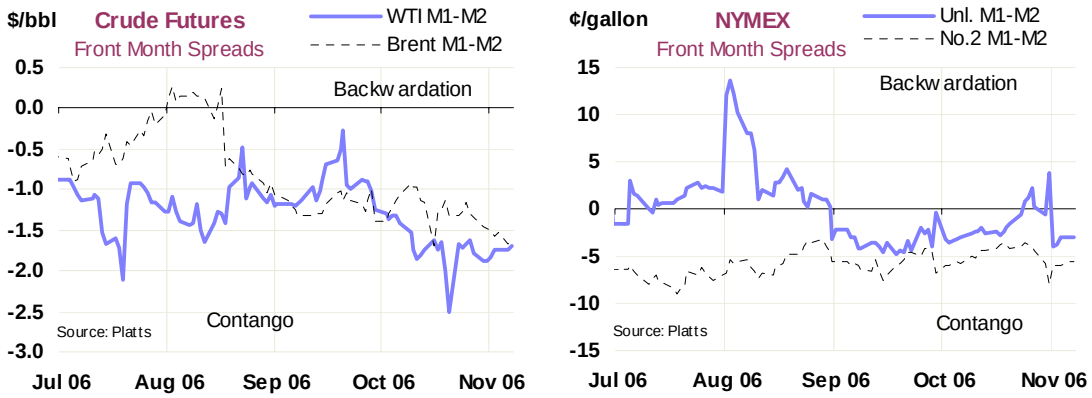
- **October crude freight rates from the Middle East Gulf fell** counter-seasonally to levels not seen since May on the prospect of reduced export volumes from OPEC producers in the fourth quarter. Elsewhere, tanker rates weakened on lower Asian product demand and ample vessel supply.

Overview

Despite refineries undergoing seasonal maintenance, and US product stocks falling sharply in October, crude and product prices were broadly unchanged in the last six weeks. Most importantly, with the exception of the winter's first cold snap in the US, October weather remained unseasonably warm, while the season for hurricanes has nearly passed without incident. OPEC's announcement of its intention to reduce output by 1.2 mb/d from November contributed to price volatility, but it remains unclear what cuts will actually be delivered, thus limiting the market impact of the announcement.

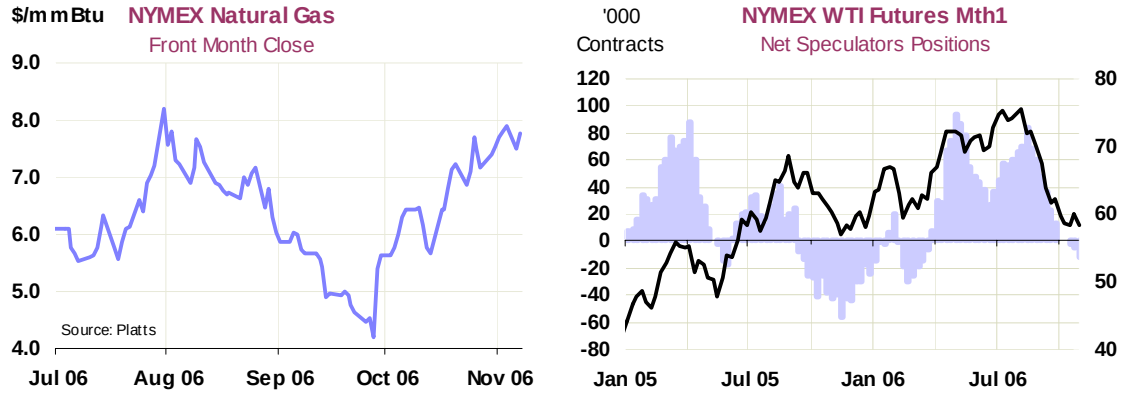


The result has been that benchmark crudes have hovered in the $57-62/bbl range since mid-October. Year-on-year supply/demand comparisons are complicated by the divergent hurricane seasons. While year-ago data were affected by the aftermath of Hurricanes Katrina and Rita, this year has seen no hurricane damage at all (so far), contributing to lower prices. In addition, the US downstream sector has apparently successfully weathered the switch to ULSD at the retail level, without any mishaps, and the prevailing contango market has helped finance brimming crude and product stocks in most parts of the world.



In terms of crude supply, the prospect of an OPEC cut had effectively been factored in by mid-September, though perhaps below the announced 1.2 mb/d reduction. OPEC is apparently mulling another 300-500 kb/d cut to be decided upon at its 14 December meeting in Abuja, Nigeria, but doubts surround the extent of any cutbacks.

Somewhat misleadingly, front-month NYMEX WTI actually settled at this year's low on 20 October, the day of the OPEC announcement, as the November contract expired that day. Looking ahead, crude contangos have widened further as near-term prices have fallen. In contrast, forward spreads for products have remained relatively unchanged, except for NYMEX Unleaded, which swung into backwardation briefly towards the end of October. However this move simply reflects limited liquidity in this contract, as it will be phased out at the end of the year.



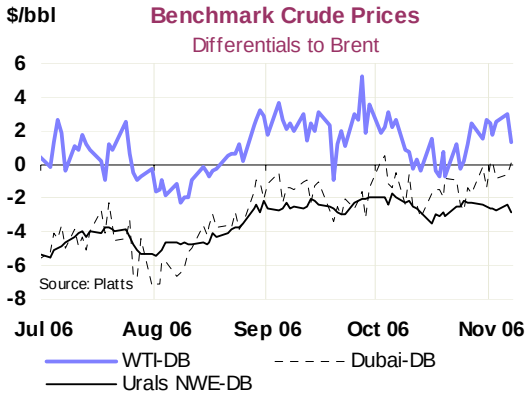
If recent cold weather in Europe and the US is sustained, a surge in heating fuel demand could yet tighten markets. Product drawdowns in the US following heavy refinery maintenance have tightened stocks there somewhat, and our estimates of offline refining capacity do not foresee a full return from maintenance until December.

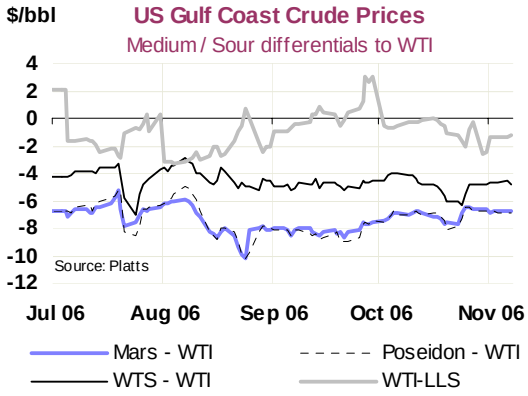
The recent cold snap, combined with a tightening of supply due to shut-in capacity, has led NYMEX Natural Gas futures to regain most of their (sharp) losses since early August. The different performance of Natural Gas futures is also reflected in the divergent trends of energy speculators. Non-commercials on the NYMEX have now gone net-short for WTI, Heating Oil and Unleaded, but not Natural Gas (nor fledgling RBOB), where they still hold a substantial net-long position. NatGas is now more expensive than fuel oil (on a Btu basis) for the first time since early February this year, encouraging fuel switching.

Crude Oil Prices

Most crudes have traded sideways since our last report, with benchmark Dated Brent averaging $60/bbl over the last four weeks. October is the highpoint of autumn refinery maintenance, naturally reducing crude demand. Strong distillates cracks are favouring crudes with a high distillate yield. But sustained gasoline demand growth in the US has also generated renewed interest in gasoline-rich light sweet grades, supporting differentials of Nigerian Bonny Light to Dated Brent.

After a slowdown in early October, physical WTI's recent increase against Dated Brent should see more North Sea and West African crudes cross the Atlantic. In the US, lighter LLS has gained in value versus WTI. The recovery of output at BP's Alaskan Prudhoe Bay field to near-normal levels in turn has seen ANS weaken against WTI on the West Coast. Heavier grades' differentials to WTI stayed steady.





Brent/Dubai spreads narrowed further in October, reaching their lowest since March 2003 in early November – at $0.35/bbl, well below the level that encourages the shipment of crudes priced off Brent to the Far East. Russian Urals also remains at discount to both Dubai and Oman, favouring a similar eastward arbitrage.

With all this competition from Atlantic Basin crudes, and with weak seasonal demand, Middle Eastern grades have been pressured in the Asia-Pacific. As a consequence, in particular middle distillate-rich crudes such as UAE's Murban have suffered from less buying interest by Japanese refineries which were not only undergoing maintenance, but also have brimming kerosene stocks.

Trades in the first handful of cargoes of new Sokol crude from Sakhalin, which is similar to Murban, has also pressured spot differentials. Moreover, so far, temperatures in Japan have been very mild, and according to the Japan Meteorological Agency, the country may experience a warmer-than-average winter.

Spot Crude Oil Prices and Differentials

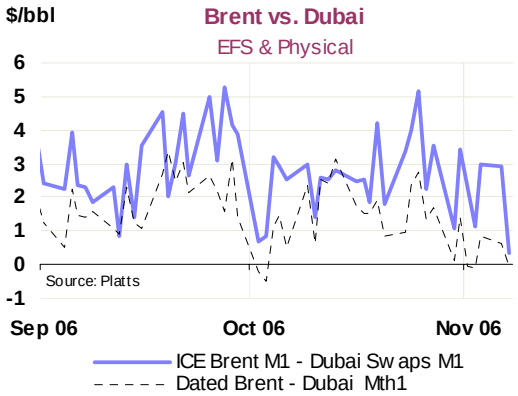
(monthly and weekly averages, $/bbl)

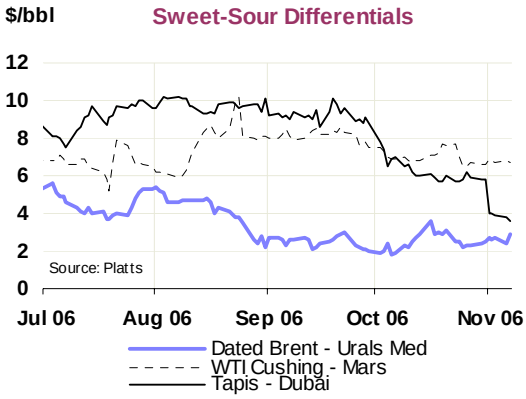
	Aug	Sep	Oct	Oct-Sep Avg Change	%	Week Commencing: 09 Oct	16 Oct	23 Oct	30 Oct	06 Nov
Crudes										
Dated Brent	73.11	61.71	57.79	-3.92	-6.3	58.28	58.31	57.84	56.27	57.33
Brent (Asia) Mth1 adjusted	74.06	64.63	60.70	-3.94	-6.1	60.62	60.95	60.34	59.79	60.69
WTI (Cushing) Mth1 adjusted	73.01	63.74	58.82	-4.92	-7.7	58.53	58.40	58.80	58.43	59.49
Urals (Northwest Europe)	68.97	59.24	55.31	-3.93	-6.6	55.78	55.21	55.48	53.68	54.68
Urals (Mediterranean)	68.49	59.47	55.68	-3.80	-6.4	56.51	55.20	55.76	53.90	55.36
Dubai Mth1 adjusted	68.77	59.82	56.42	-3.39	-5.7	56.06	56.80	56.28	55.83	57.03
Dubai Swaps Mth1 adjusted	69.20	60.58	57.27	-3.31	-5.5	56.91	57.64	57.21	56.57	57.49
Minas (Dated)	75.21	63.32	55.02	-8.29	-13.1	55.61	54.35	53.10	53.39	56.49
Tapis (Dated)	78.53	69.03	62.69	-6.34	-9.2	62.36	62.67	62.19	60.53	60.74
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	-0.10	2.03	1.03	-1.01		0.25	0.10	0.96	2.15	2.16
Urals (Mediterranean)	-4.62	-2.24	-2.12	0.12		-1.76	-3.11	-2.08	-2.37	-1.98
Urals (Northwest Europe)	-4.14	-2.47	-2.49	-0.02		-2.50	-3.10	-2.36	-2.59	-2.65
Dubai Mth1 adjusted - Dated Brent	-4.34	-1.89	-1.37	0.52		-2.21	-1.51	-1.57	-0.44	-0.31
Dubai Swaps - Brent Asia	-4.86	-4.06	-3.43	0.63		-3.71	-3.31	-3.13	-3.22	-3.20
Tapis (Dated)	5.42	7.32	4.90	-2.42		4.08	4.37	4.35	4.26	3.41
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-0.59	-1.02	-1.18	-0.16		-1.02	-1.24	-1.31	-1.36	-1.38
Forward WTI Cushing Mth1-Mth2 adj	-1.08	-0.87	-1.68	-0.82		-1.68	-1.78	-1.92	-1.80	-1.68

Higher utilisation rates at nuclear power plants have contributed to a similar lack of interest in fuel oil-rich crudes such as Oman. Reflecting this, Oman's retroactive October term price was recently set below that of Dubai for the first time in six years. Given naphtha's weakness in the region, naphtha-rich Malaysian Tapis has suffered, bringing down its differential to sour benchmark Dubai – a sharp narrowing of sweet-sour differentials in the region. Heavy, sweet Indonesian Minas has fared better in recent days, seeing its discount to Tapis narrow by half since early November.

In Europe, Norwegian output cuts due to forced safety and weather shutdowns, which took out up to 340 kb/d temporarily, appeared not to significantly affect prices of North Sea crudes, as the market was still working its way through an overhang of November cargoes. The market is also looking ahead to the introduction of Buzzard crude into the Forties stream, mulling how the associated reduction in Forties API gravity may affect prices of Dated BFO.

Urals differentials to Brent have held steady. Further cutbacks of the Russian export blend through the Druzhba pipeline leg to Lithuania and Belarus have been compensated for by higher loadings in the Baltic. Additional pressure on Mediterranean crudes came from increased Azeri Light volumes through the BTC pipeline to Ceyhan, which have reached 500 kb/d on occasion. The halt to loadings from Supsa due to corrosion problems with the pipeline from Baku appears to be being offset by additional loadings from close-by Batumi.





Delivered Crude Prices in August

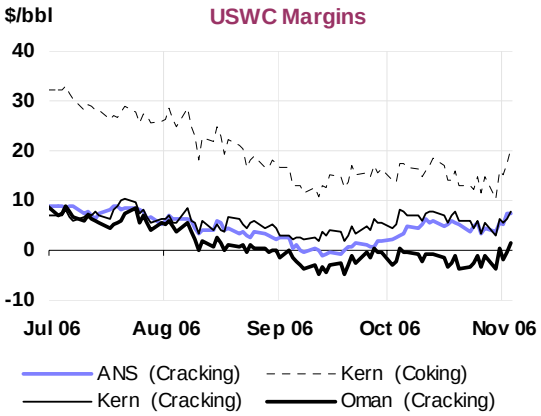
IEA countries paid $69.69, on average, for a barrel of crude delivered in August. This was $1.02/bbl above the July average and $11.47/bbl more than August 2005. IEA Pacific countries (Japan, Korea, Australia and New Zealand) experienced a $2.61/bbl month-on-month price increase, with CIF crude costs averaging $71.49 in August. IEA European countries paid $70.80/bbl in August, compared with $69.67/bbl in July, while average August values for North American IEA countries rose by just one cent to $67.49, compared with the previous month.

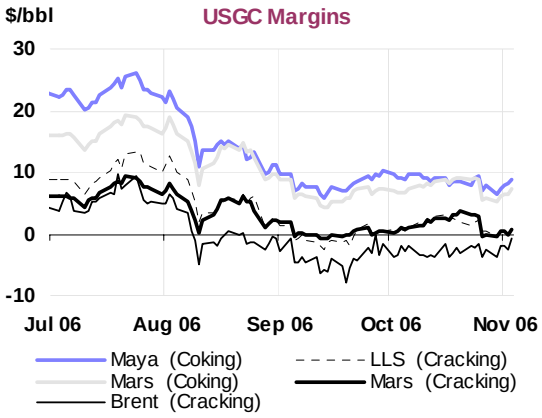
Refining Margins

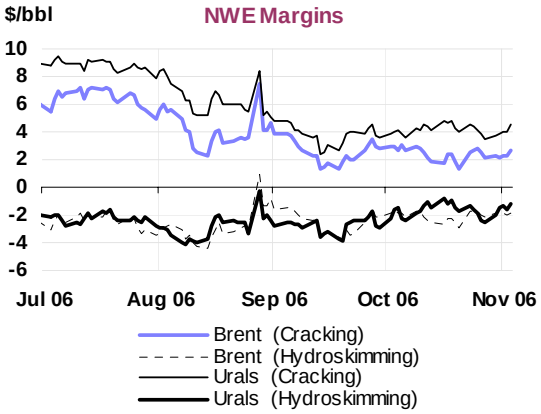
Products remained relatively steady while crude weakened in October, resulting in gains for most refining margins. The greatest increases were seen in the US, particularly on the West Coast, where ANS cracking margins shot up by $4/bbl due to ANS's relative price fall on recovered Alaskan output. US Gulf Coast margins all rose steadily, sustained by middle distillate cracks. Brent cracking margins in the USGC remain negative, however.

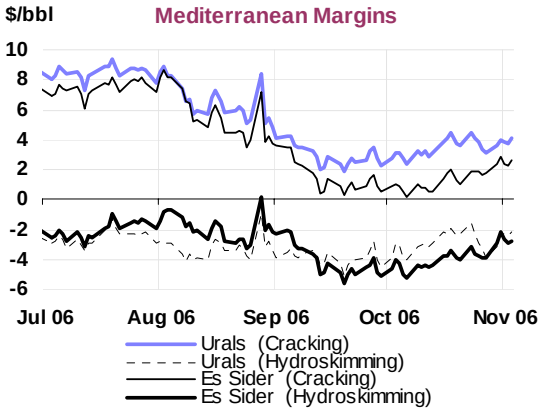
In Europe, margin performance in October was mixed, though the clear pattern of the last months – profitable cracking and negative hydroskimming margins – remained in place. In Singapore, margins were up, notably for Tapis hydroskimming, after the crude tumbled a relatively steep $5 to around $60/bbl. Despite the gains, all margins except Dubai hydrocracking remain deeply negative due to fuel oil's relative weakness. Despite the economic incentive – and some market chatter – it appears that there were, at the most, 125 kb/d of economic run cuts in Asia last month, and plenty of refineries are expected to return from maintenance in November.

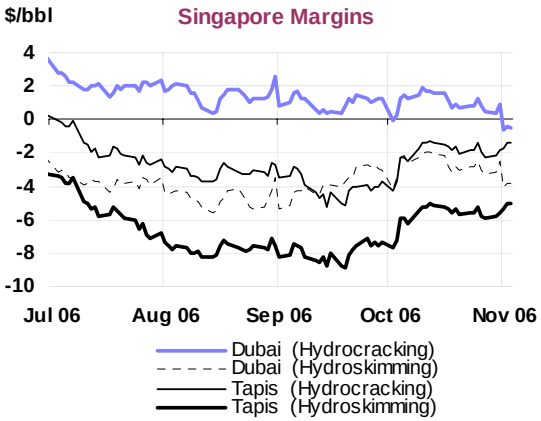
Regional Full-Cost Refining Margins

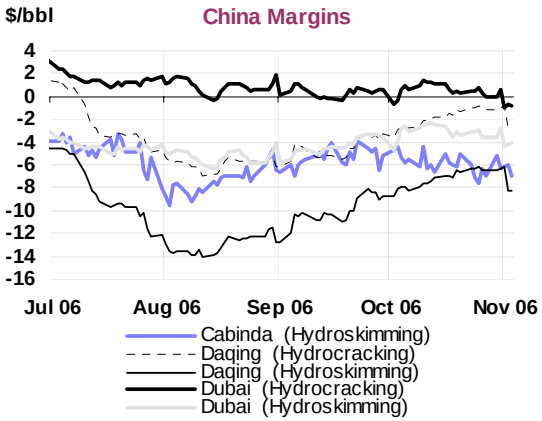












Selected Refining Margins in Major Refining Centres

($/bbl)

		Monthly Average			Change	Week Ending:				
		Aug 06	Sep 06	Oct 06	Oct 06-Sep 06	06 Oct	13 Oct	20 Oct	27 Oct	03 Nov
NW Europe	Brent (Cracking)	4.17	2.59	2.84	0.26	2.86	2.47	1.94	2.53	2.32
	Urals (Cracking)	6.37	3.77	3.59	-0.19	3.89	4.28	4.50	4.08	4.03
	Brent (Hydroskimming)	-2.82	-2.52	-2.15	0.36	-1.86	-2.12	-2.53	-1.86	-1.84
	Urals (Hydroskimming)	-2.86	-2.79	-2.88	-0.10	-2.01	-1.46	-1.25	-1.96	-1.51
Mediterranean	Es Sider (Cracking)	5.68	1.52	1.31	-0.21	0.71	0.72	1.47	1.83	2.50
	Urals (Cracking)	6.54	2.97	3.45	0.48	2.82	3.09	3.96	3.78	3.87
	Es Sider (Hydroskimming)	-1.89	-4.09	-3.99	0.10	-4.66	-4.44	-3.77	-3.67	-2.71
	Urals (Hydroskimming)	-3.26	-3.91	-2.89	1.01	-3.56	-3.05	-2.24	-2.78	-2.51
US Gulf Coast	Brent (Cracking)	0.18	-4.06	-2.86	1.21	-2.74	-3.56	-2.75	-2.41	-2.19
	LLS (Cracking)	5.74	-0.48	1.48	1.97	0.73	2.17	2.42	1.22	0.11
	Mars (Cracking)	4.28	0.15	1.64	1.49	0.68	1.91	2.89	1.72	0.25
	Mars (Coking)	13.02	6.36	7.63	1.27	6.91	8.01	8.77	7.60	6.29
	Maya (Coking)	14.95	8.07	8.60	0.53	9.32	9.03	8.49	8.26	7.76
US West Coast	ANS (Cracking)	4.41	0.63	4.62	3.99	3.22	5.52	5.31	4.41	5.91
	Kern (Cracking)	5.41	3.53	6.20	2.67	6.56	7.19	6.68	4.99	5.80
	Oman (Cracking)	1.81	-2.22	-1.76	0.46	-1.14	-1.05	-2.49	-2.33	-0.85
	Kern (Coking)	21.65	14.32	14.94	0.62	15.83	16.57	14.86	13.27	15.77
Singapore	Dubai (Hydroskimming)	-4.72	-3.82	-2.69	1.13	-2.93	-2.08	-2.80	-2.89	-3.46
	Tapis (Hydroskimming)	-7.73	-7.98	-5.72	2.26	-6.58	-5.24	-5.47	-5.61	-5.37
	Dubai (Hydrocracking)	1.46	0.98	1.03	0.05	0.79	1.66	1.00	0.81	-0.03
	Tapis (Hydrocracking)	-3.13	-4.07	-2.02	2.05	-3.00	-1.47	-1.71	-1.88	-1.72
China	Cabinda (Hydroskimming)	-7.38	-5.37	-5.87	-0.50	-5.19	-5.93	-5.62	-6.81	-6.14
	Daqing (Hydroskimming)	-12.98	-10.10	-7.14	2.96	-8.17	-7.52	-6.80	-6.34	-7.10
	Dubai (Hydroskimming)	-5.31	-4.38	-3.10	1.28	-3.42	-2.49	-3.17	-3.28	-3.82
	Daqing (Hydrocracking)	-5.93	-4.60	-1.82	2.78	-2.93	-2.14	-1.49	-1.01	-1.71
	Dubai (Hydrocracking)	0.86	0.35	0.57	0.22	0.22	1.20	0.56	0.39	-0.40

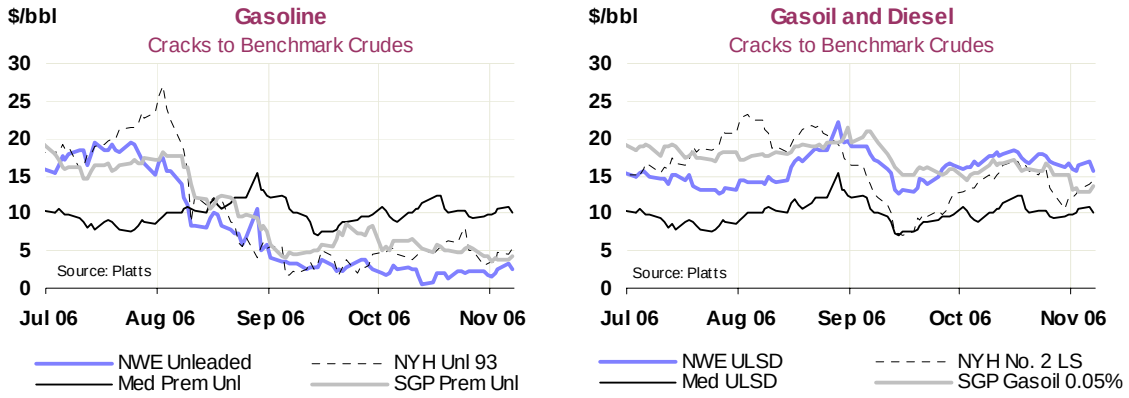
For the purposes of this report, refining margins are calculated for various complexity configurations, each optimized for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability 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.

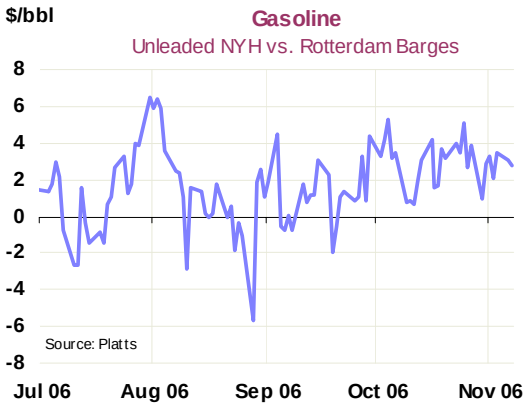
Sources: IEA, Purvin & Gertz Inc.

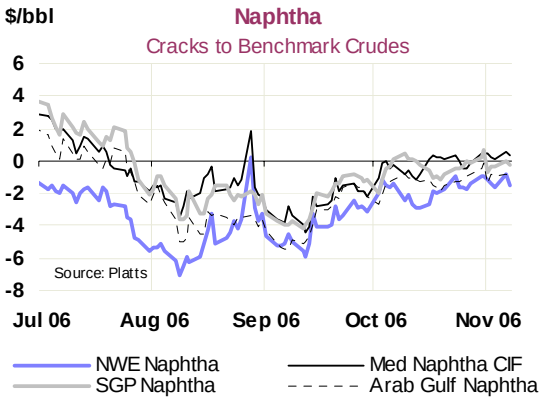
Product Prices

Product prices in the US and Europe have shown more resilience than crude, with some 3.7 mb/d of refining capacity shut down in October, and the onset of winter. Nevertheless, gasoline and



diesel/heating oil prices and cracks trended sideways in all three major markets. US gasoline and distillate stocks came down quite sharply in October on lower refinery throughputs and strong demand but remain just in line with five-year averages in terms of forward demand cover. The economics are still favourable for the US to draw gasoline from Northwest Europe, where commercial stocks are brimming.





Naphtha prices remain very weak on sustained strong Indian exports, but a slight improvement in petrochemical demand has meant its cracks have approached positive territory for the first time since mid-July, bar a brief late-August spike.

As mentioned above, heating oil and diesel prices were unchanged in October and early November, despite the first cold snap in the US Northeast in late October. The 15 October deadline for US retailers to ensure supplies of ULSD passed smoothly, though some worries remain whether there will be sufficient ultra-low-sulphur kerosene blendstock to make winter-specification diesel

Spot Product Prices

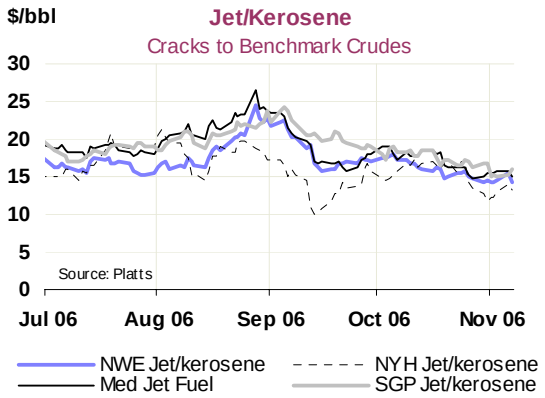
(monthly and weekly averages, $/bbl)

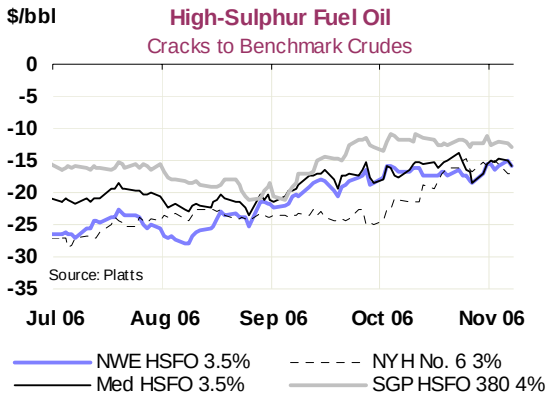
	Aug	Sep	Oct	Oct-Sep		Week Commencing:					Aug	Sep	Oct
				Change	%	09 Oct	16 Oct	23 Oct	30 Oct	06 Nov			
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	84.58	65.96	61.00	-4.97	-7.5	61.43	61.09	61.26	59.48	61.47	11.47	4.25	3.20
Naphtha	68.45	57.65	55.96	-1.68	-2.9	55.67	56.26	56.37	55.07	56.16	-4.66	-4.06	-1.83
Jet/Kerosene	91.93	79.93	73.89	-6.05	-7.6	74.89	73.88	73.09	70.63	72.22	18.82	18.22	16.09
ULSD	89.75	77.31	74.92	-2.39	-3.1	75.99	75.77	75.26	72.36	73.55	16.65	15.60	17.13
Gasoil .2%	86.61	75.50	72.03	-3.47	-4.6	72.88	72.55	72.06	69.42	71.10	13.50	13.79	14.24
LSFO 1%	48.22	43.71	39.42	-4.30	-9.8	40.18	39.22	39.03	41.08	39.81	-24.89	-18.00	-18.38
HSFO 3.5%	48.39	42.41	40.92	-1.48	-3.5	41.76	41.13	40.33	40.11	41.83	-24.72	-19.30	-16.87
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm	83.31	64.09	60.68	-3.42	-5.3	60.44	60.05	62.27	60.71	62.04	14.81	4.62	5.00
Naphtha	67.35	56.55	55.08	-1.48	-2.6	54.94	55.40	55.33	54.02	55.14	-1.15	-2.92	-0.60
Jet Aviation fuel	90.39	78.14	72.91	-5.23	-6.7	74.49	72.67	71.55	69.38	70.72	21.89	18.67	17.23
Gasoil .2%	85.99	75.92	72.38	-3.54	-4.7	73.59	72.94	71.76	69.20	71.21	17.50	16.45	16.71
LSFO 1%	51.84	42.56	39.93	-2.63	-6.2	40.81	39.75	40.18	39.62	40.08	-16.65	-16.91	-15.74
HSFO 3.5%	46.90	41.41	39.58	-1.84	-4.4	40.84	39.79	39.51	38.35	39.90	-21.59	-18.06	-16.10
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	99.35	72.83	69.65	-3.18	-4.4	68.42	70.49	71.03	68.20	70.25	26.35	9.09	10.83
Unleaded	85.55	66.77	63.90	-2.87	-4.3	62.89	63.94	65.08	62.00	64.37	12.55	3.03	5.08
Jet/Kerosene	91.28	77.65	74.45	-3.20	-4.1	75.26	75.09	74.25	70.85	73.11	18.28	13.91	15.63
No. 2 (Heating Oil)	83.21	71.10	69.04	-2.06	-2.9	69.21	70.72	69.65	66.65	68.96	10.20	7.36	10.21
LSFO 1%	50.32	39.91	39.34	-0.58	-1.4	37.26	39.98	42.01	42.39	42.50	-22.69	-23.83	-19.48
No. 6 3%	49.51	39.97	39.98	0.01	0.0	37.58	40.90	42.93	42.98	42.50	-23.50	-23.77	-18.84
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	81.22	65.86	61.83	-4.03	-6.1	62.01	62.06	61.47	59.80	61.07	12.46	6.04	5.41
Naphtha	66.59	57.32	56.03	-1.29	-2.3	56.12	55.90	56.02	55.72	56.87	-2.18	-2.49	-0.39
Jet/Kerosene	89.47	80.55	74.02	-6.53	-8.1	74.23	74.22	73.06	71.60	72.62	20.71	20.73	17.60
Gasoil .5%	86.29	75.85	71.17	-4.68	-6.2	71.60	71.87	70.98	68.64	69.19	17.52	16.03	14.75
LSWR Cracked	51.77	44.45	40.14	-4.31	-9.7	40.03	40.09	39.45	38.36	39.13	-16.99	-15.37	-16.28
HSFO 180 CST	50.68	44.29	44.21	-0.09	-0.2	44.16	44.13	43.85	43.63	44.21	-18.09	-15.52	-12.22
HSFO 380 CST 4%	49.90	44.27	44.44	0.17	0.4	44.62	44.40	43.94	43.72	44.35	-18.86	-15.55	-11.98

In Europe, a fire at Lithuania's Mazeikiai refinery looks set to add to its existing crude import problems after a halt in the pipeline flow from Russia. In combination with the two Belarusian refineries that are now also not receiving any Russian crude, this may yet tighten the distillates market in Northwestern Europe. Repairs at the Mazeikiai refinery could apparently take up to nine months, and are expected to lead to it importing 100,000 tonnes per month of high-sulphur vacuum gas oil.

On the other hand, a surplus of diesel in South Korea has led to its refiners shipping cargoes to NWE. Jet/kero prices in contrast have fallen in all regions. The weakness is particularly apparent in Asia, where China is said to have already covered its fourth-quarter requirements, and high kerosene stocks are preventing Japanese imports.

Low-sulphur fuel oil (LSFO) prices have seen an upturn in the US following a rise in natural gas prices. The lowest natural gas prices in three years prompted some US producers to shut in gas production, while cold weather boosted utility demand. As a result, LSFO's discount to WTI narrowed sharply. Residual fuel oil stocks in both NWE and Singapore remain high, and there is little demand in Asia for surplus material from Europe, but the arbitrage reopened in late October.





End-User Product Prices in October

Recent declines in global product prices continued to be felt by OECD consumers in October. Gasoline cost $0.595/litre, on average, at US pumps in October. Excluding tax, this represented a decrease of 14% compared with September. Ex-tax gasoline prices in France, Germany, Spain and UK also fell by over 10% on a dollar basis.

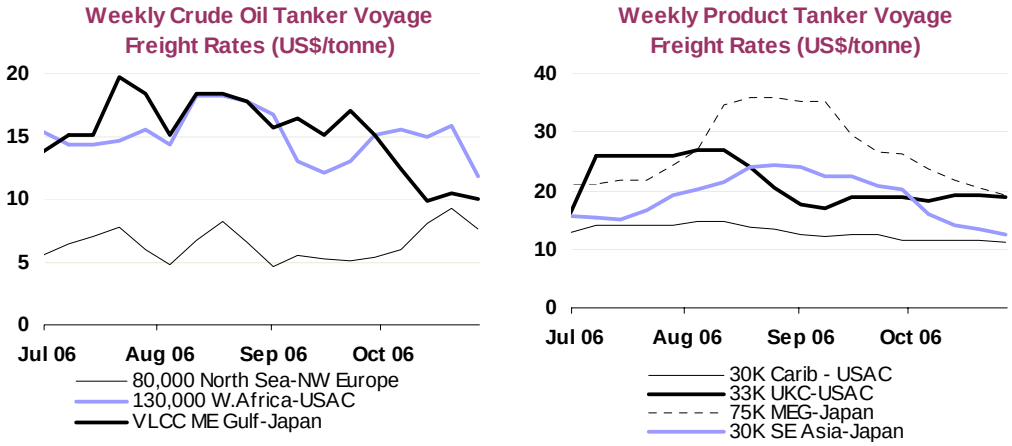
Comparative net diesel prices shrank by 11% in US and Canada in October, while dollar-based European diesel was down by 5-10% in OECD Europe, before tax. In gross terms, UK end-user diesel cost the equivalent of $1.72/litre in October, on average. Japanese net end-user prices for transportation fuels dropped by almost 5% in October in dollar terms. Despite the approach of winter, OECD consumers in all regions were afforded a 5-10% October pre-tax reduction in heating oil, while industries in OECD Europe paid up to 12% less for October LSFO.

Freight

The prospect of reduced OPEC exports prompted significant counter-seasonal declines in spot tanker rates in October. VLCC rates from the Middle East Gulf fell to levels not seen since May as vessel employment was threatened by looming cargo reductions. Aframax rates strengthened in early October, boosted by Mediterranean chartering activity, but tailed off by end-month. Clean tanker rates weakened in October, especially in Asia.

By the time OPEC had formally announced 1.2 mb/d production cuts on 20 October, crude tanker markets had already fallen in anticipation of a reduction in forthcoming cargoes. VLCC rates from the Middle East Gulf to Japan and the US Gulf dropped from $18 to $10/tonne and from $26 to $18/tonne respectively between mid-September and mid-October. Rates were pinned at these low levels for the second half of October as a potential vessel surplus undermined any possibility of a seasonal uptick in charter rates.

With Saudi Arabia and UAE reportedly notifying some customers of reductions to November term volumes, data on tanker movements appeared to confirm a significant downward trend in sailings extending to mid-November at least. Historically high OECD stocks will afford consumers a temporary slackening in trade. However, with temperatures dropping in consumer regions and refinery maintenance winding down, a rebound in tanker demand is likely at some point. Freight rates may also be supported by rising tonne-mile demand as increasing proportions of crude are sought from alternative sources outside OPEC (for example increased non-OPEC Atlantic basin cargoes heading to Asia).



VLCC and Suezmax rates from West Africa to the US Gulf strengthened in mid-October by $2 and $4, to $15/tonne and $23/tonne respectively on firm demand but showed significant downward corrections by end-month. Limited Indian demand for West African cargoes was indicative of lower WAF-East chartering activity in October. Suezmax and Aframax freight rates in the Mediterranean were firm in early October, buoyed by heightened chartering activity. Inter-regional competition for vessels supported North Sea and Caribbean Aframax rates as well, the latter rising from under $10 to almost $15/tonne in October. However, Suezmax and Aframax rates fell in early November in all regions on higher vessel availability.

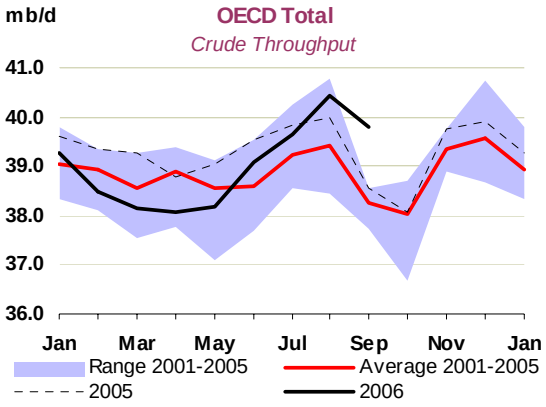
In October, Middle East Gulf to Japan clean rates for 75,000-tonne vessels extended steady, unchecked declines to a third month. Heavy petrochemical maintenance in Asia has weakened naphtha demand at a time when extra supply has been available from Indian refiners. Furthermore, OECD Pacific product stocks remain historically high.

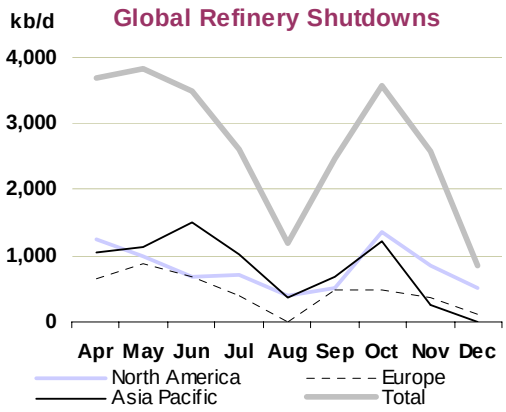
Smaller clean vessels in Asia were in ample supply and chartered for increasingly lower values throughout October. The only rate strength in the clean sector in October was seen in the North Sea, possibly related to high stock turnovers in the wake of increased physical trading. Active transatlantic clean product trade also sporadically supported clean rates from North Europe to US in October.

REFINING

Summary

- **OECD refinery throughput declined by 652 kb/d to 39.8 mb/d in September** following increased refinery maintenance in all three OECD regions. Despite the monthly fall, crude runs were 1.23 mb/d above September 2005's hurricane reduced level and substantially above the five-year average of 38.3 mb/d.
- **OECD refinery runs are expected to have decreased by a further 1.3 mb/d in October.** Heavier maintenance work in the US and the Pacific underpins the drop. In November, crude runs are expected to recover by 1.1 mb/d, with gains in all three regions. The US and Pacific regions will lead the increase, the latter despite an increase in voluntary run cuts in Japan.
- **OECD yield data for August indicate that jet production** remains under pressure in North America, with refiners opting to maximise diesel production instead. Conversely in Europe and the Pacific, jet/kerosene yields have increased to above their respective five-year ranges. Gasoline yields continue to trend in line with the five-year average in North America, but are at the bottom of the range in both Europe and the Pacific, reflecting the regions' structural declines in gasoline demand.
- **Offline refinery capacity in the OECD** is projected to decline from the October peak of 2.7 mb/d to 1.6 mb/d in November and to 600 kb/d in December. Global offline capacity is estimated to have increased from 2.5 mb/d in September to 3.7 mb/d in October.





Refinery Throughput

OECD refinery crude runs in September were an estimated 39.79 mb/d, as the start of autumn maintenance cut refinery activity from the near-record throughput levels seen in August. The decline of 652 kb/d from August's upwardly revised (+178 kb/d) figure of 40.45 mb/d was evenly split between the three OECD regions. Average September OECD throughputs were 1.23 mb/d above September 2005's level, due to the lack of hurricane-related disruptions which depressed last year's runs. Consequently, average OECD capacity utilisation decreased to 88.3% in September, from 89.7% in August but was well ahead of the 86.3% seen this time last year. Weekly data for the US and Japan indicate that OECD crude runs continued to decline in October as autumn maintenance took more capacity offline, while Europe is expected to be broadly flat. For November, additional economic run cuts have been reported for Japanese refiners due to poor margins and high kerosene and residual fuel stocks. Conversely Korean plants are expected to remove voluntary run cuts and increase runs by 100 kb/d. European and North American refiners should also see rising utilisation rates as we move towards the year-end.

OECD North America

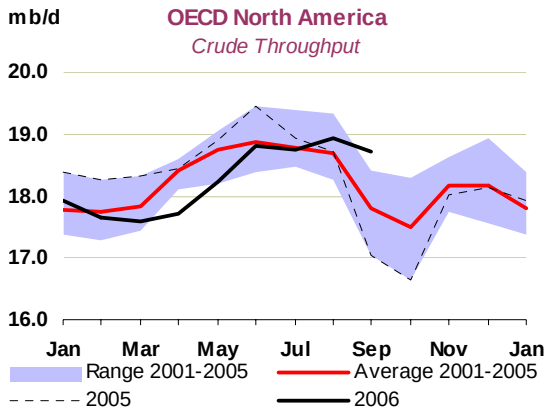
Provisional data for September show that North American crude throughputs fell by 205 kb/d to an estimated 18.73 mb/d. The decline from August's upwardly revised level of 18.93 mb/d (+191 kb/d) was the result of lower throughputs in the US (-53 kb/d), Canada (-109 kb/d) and Mexico (-43 kb/d). Crude runs registered a 1.69 mb/d gain on September 2005 from last year's hurricane-affected baseline. North American capacity utilisation was 88.8% in September, down from August at 89.8%.

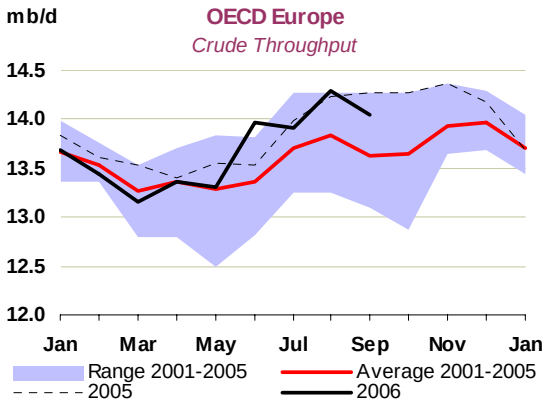
Refinery Crude Throughput and Utilisation in OECD Countries

	million barrels per day						*Change from*		Utilisation rate[2]	
	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	*Aug 06*	*Sep 05*	Sep 06	Sep 05
OECD North America										
US[3]	14.94	15.52	15.84	15.67	15.79	15.74	-0.05	1.77	90.49	81.56
Canada	1.52	1.49	1.74	1.83	1.92	1.81	-0.11	0.03	89.72	88.48
Mexico	1.26	1.22	1.22	1.25	1.22	1.18	-0.04	-0.11	70.00	71.96
Total	17.71	18.22	18.80	18.75	18.93	18.73	-0.21	1.69	88.78	81.80
OECD Europe										
France	1.49	1.49	1.64	1.72	1.81	1.86	0.05	0.11	94.00	89.89
Germany	2.30	2.37	2.34	2.37	2.45	2.18	-0.27	-0.28	89.69	99.99
Italy	1.81	1.50	1.87	1.87	1.93	1.94	0.01	-0.08	83.40	87.07
Netherlands	0.88	0.92	0.99	0.94	0.98	1.03	0.05	-0.04	84.31	87.08
Spain	1.20	1.22	1.26	1.19	1.24	1.22	-0.02	-0.01	96.07	97.06
UK	1.51	1.59	1.60	1.61	1.68	1.64	-0.03	-0.07	87.46	93.74
Other OECD Europe	4.18	4.21	4.27	4.20	4.18	4.17	-0.01	0.14	86.45	86.30
Total	13.37	13.31	13.97	13.91	14.30	14.04	-0.25	-0.23	88.16	90.79
OECD Pacific										
Japan	3.96	3.50	3.51	3.84	4.09	3.87	-0.22	-0.31	82.83	88.68
Korea	2.33	2.52	2.14	2.43	2.41	2.46	0.05	0.11	95.56	91.36
Other OECD Pacific	0.69	0.62	0.65	0.70	0.72	0.69	-0.03	-0.03	85.88	83.56
Total	6.98	6.64	6.30	6.97	7.22	7.02	-0.19	-0.22	87.21	88.99
OECD Total	38.06	38.18	39.07	39.63	40.45	39.79	-0.65	1.23	88.28	86.27

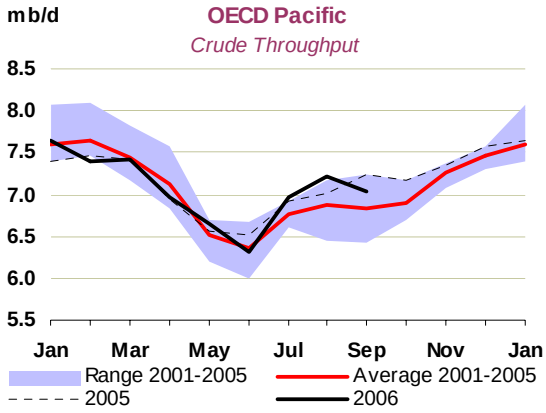
1 Estimate
2 Based on crude throughput and current operable refining capacity
3 US50

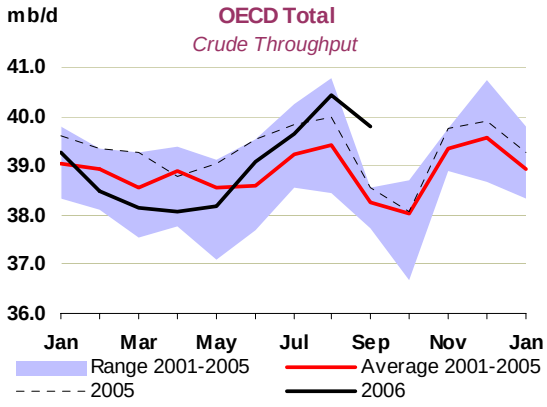
US throughputs averaged 15.74 mb/d in September as the early-month peak in crude runs of 16 mb/d gave way to lower runs, as refiners started maintenance. As a result, average capacity utilisation slipped to 90.5% from August's 90.8%. However, US crude runs were some 1.77 mb/d above the September 2005 level with no curtailments from hurricanes to hamper operations. US refiners reported strong third-quarter financial results during October. Returns were high despite the decline in gasoline cracks since early August, with sour crude discounts and continued strength in diesel cracks supporting margins.





Weekly US data indicate that crude throughputs in October fell to 14.8 mb/d by the middle of the month, the lowest level since April this year. Average throughputs in October are expected to have declined by 0.7 mb/d to 15.1 mb/d, driven by an increase of almost 900 kb/d in refinery maintenance. Capacity offline during the month includes BP's 260 kb/d Carson refinery on the West Coast, a 200 kb/d crude unit at Sunoco's Philadelphia plant and some 275 kb/d at Valero refineries. Crude runs will also be slightly affected by the shutdown of Hawaii's two refineries following an earthquake in the middle of the month. US crude throughput recovered to 15.2 mb/d by early November, as maintenance work eased. Gasoline inventories declined over the course of October as expected, with imports dropping to their lowest level since last November and gasoline production dropping to its lowest level since April. November runs should increase as maintenance work is expected to decline by just over 300 kb/d ahead of peak winter heating oil demand.

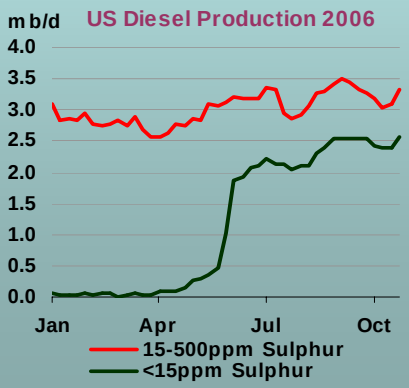


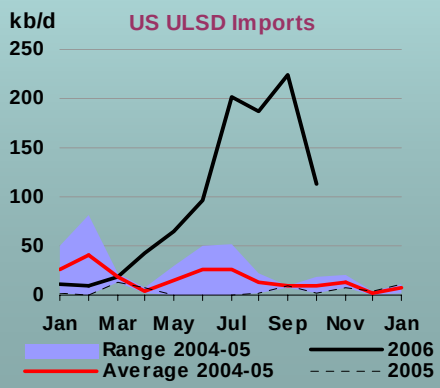


According to preliminary estimations, Canadian September crude runs were 1.81 mb/d, 109 kb/d lower than August's upwardly revised (+161 kb/d) estimate and some 25 kb/d above September 2005's level. Industry reports suggest work at Suncor's Sarnia 70 kb/d refinery and Irving's 250 kb/d St John refinery accounts for the decline. Mexican crude runs also dipped slightly in September to 1.18 mb/d, a decline of 43 kb/d from August and 105 kb/d below last year's level.

ULSD – Not an Acronym for Un-Limited Supply Disruption

The introduction of ultra-low-sulphur diesel (ULSD) (less than 15 parts per million) continues to progress smoothly, with recent EIA data indicating that it now accounts for 2.5 mb/d, almost 80% of all distillate production below 500 ppm sulphur. In addition, ULSD imports have grown strongly and now account for as much as 200 kb/d of ULSD supply. The switch to ULSD has been so successful that some markets no longer have (higher-sulphur) off-road diesel available, forcing consumers to use ULSD. Furthermore, restrictions placed on the transportation of low-sulphur diesel (500 ppm) by some midstream and pipeline companies have further boosted ULSD market penetration. California's decision to only allow the sale of ULSD has effectively converted the West Coast to 100% ULSD. In the US Northeast, some concerns have emerged over the availability of ultra-low-sulphur kerosene (for which there is no mandated requirement) for winter diesel specification blending requirements, although alternative additives are available for this purpose. Also, recent reports indicate some limited product supply outages of ULSD at terminals served by the Magellan pipeline in the Midwest, although these are expected to be very short-lived. The potential for biodiesel to further boost supplies of ULSD suffered a setback when shippers on the Colonial pipeline banned shipments of biodiesel blends for fear of contaminating jet fuel supplies. Such a move may limit the use of biodiesel outside areas where it is produced, but may also promote exports to markets such as Europe.





Fuel Quality - Further Challenges Lie Ahead for the Global Refining Industry

The removal of sulphur from transportation fuels has been one of the largest challenges facing refiners for the past five to ten years. Stricter regulations on product quality have forced them to invest billions of dollars in improving product quality. Recent changes have been largely focused on OECD countries. Collectively, these markets account for approximately 70% of global gasoline consumption and 55% of gasoil and diesel demand. The balance of the decade will see an increase in the number of countries requiring transportation fuel to meet low and ultra-low-sulphur specifications. This suggests refiners will need to continue investing in hydrotreating and upgrading capacity.

In 2005, the member states of the European Union (EU) introduced the Euro-IV fuel standards, which reduced diesel sulphur levels to 50 parts per million (ppm) from the previous level of 350 ppm. Similarly, gasoline sulphur levels were reduced to 50 ppm from 150 ppm. In addition to tighter sulphur specifications, lower benzene, aromatics and olefins limits have all come into force, altering the way refiners blend gasoline. Sulphur-free diesel and gasoline (in Europe this is considered to be less than ten parts per million) is also required to be available in all EU countries on a balanced geographical basis, with 100% availability by 2009.

North American product specifications have tightened significantly in the past 12 months. The EPA regulations on gasoline sulphur content now require an average of 30 ppm, compared to the previous average requirement of 90 ppm. June witnessed the start of ultra-low-sulphur diesel (ULSD) production with a maximum of 15 ppm sulphur for 80% of on road diesel sales. In addition to these regulatory hurdles, the US has abandoned the use of MTBE in reformulated gasoline production and switched to use ethanol. The Mexican state monopoly Pemex recently announced plans to sell 30 ppm gasoline and 15 ppm diesel from next year. OECD Pacific product quality regulations have also tightened in recent years with Japan adopting 50ppm diesel in 2003, with refiners currently producing 10 ppm ULSD. Similarly, Korea is producing 10 ppm ULSD while Australia and New Zealand adopted a 50 ppm limit on diesel this year.

The pace of regulatory tightening is not set to diminish in the coming years. The US will further tighten sulphur specifications next year with the move to 500 ppm sulphur for off-road diesel and gasoil. A further transition to 15 ppm is planned for 2010, to coincide with the move to 100% of on road diesel sales being ULSD from the current mandated level of 80%.

Elsewhere improvements are expected over the balance of the decade as the adoption of 10 ppm sulphur levels becomes mandatory in the EU. Ahead of these deadlines, some countries (e.g. Germany and the UK) have enforced tighter specifications or simply encouraged the early adoption of tighter specifications through tax incentives. Likewise Australia has recently announced a tax incentive to promote the production of 10 ppm from 1 January 2007, two years ahead of the required date of implementation.

Non OECD countries are also set to implement tighter environmental regulations:

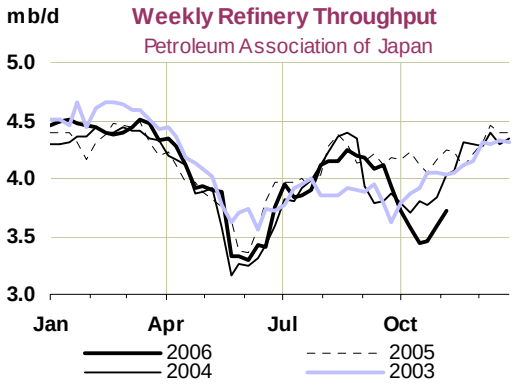
- China adopted the Euro-II emission standard in mid 2005 and is anticipated to implement the Euro-III fuel standards in 2007 (a maximum of 350 ppm sulphur in diesel and 150 ppm in gasoline). Further improvements in 2010 will require refiners to meet Euro-IV fuel standards. However, Beijing and other major cities, such as Shanghai, typically adopt standards two years ahead of this schedule. The adoption of Euro-III specification in mid-2005 suggests we should expect Euro-IV specifications to be enforced at the beginning of 2008 and some reports indicate 50 ppm material will be on sale from mid-2007 onwards.
- Thailand moved to 350 ppm sulphur in 2003 and is expected to move to 50 ppm diesel in 2009.
- Vietnam, which currently has a 5,000 ppm limit, is set to introduce a 500 pm sulphur specification in 2007 as an intermediate step before moving to 50 ppm in 2009.
- Taiwan adopted 50 ppm sulphur levels in diesel in 2005 and should move to 10 ppm in 2009.
- Middle Eastern countries are expected to tighten sulphur limits to 500 ppm from 2,000 ppm, or more, towards the end of the decade, although here progress is expected to be slow with little prospect of ULSD before the end of the decade in any of the region's major consuming countries.
- Russia has introduced laws to tighten product specifications, with the current 2,000 ppm limits in diesel expected to be tightened to 50 ppm by 2010.

OECD Europe

European crude throughputs averaged 14.04 mb/d in September, a decrease of 255 kb/d from August's upwardly revised (+86 kb/d) level of 14.30 mb/d and 232 kb/d below September 2005's level. The majority of the decline occurred in Germany (-268 kb/d) with maintenance work reportedly carried out at ConocoPhillips' 268 kb/d Wilhelmshaven and BP's 91 kb/d Lingen plants. Elsewhere the shutdown of Neste's 50 kb/d Naantali refinery and the partial turnaround at Statoil's Kalundborg plant account for much of the remaining offline capacity. We have revised down our estimate for offline capacity elsewhere in Europe in September as industry reports indicate that work at plants in France and the Netherlands were lighter than we had anticipated, with maintenance centred on upgrading and hydrotreating units as opposed to crude units. Consequently, crude runs were stronger than expected in Europe, and offline capacity is now thought to have been around 500 kb/d in both September and October. October crude runs should therefore have been around the 14 mb/d level, but are expected to increase over the remainder of the year in line with seasonal norms.

OECD Pacific

OECD Pacific crude throughputs declined by 193 kb/d in September to average 7.02 mb/d from the downwardly revised (-99 kb/d) August estimate of 7.22 mb/d. The decrease was centred in Japan where runs fell by 220 kb/d, to average 3.87 mb/d from August's downwardly revised (-130 kb/d) level of 4.09 mb/d. The decrease was mainly related to higher maintenance activity, which is estimated to have increased by 250 kb/d compared with August. Korean crude runs increased by 54 kb/d, to average 2.46 mb/d, which is just over 100 kb/d above the September 2005 level. Lower maintenance (-100 kb/d) was offset by the impact of economic run cuts which curtailed crude runs by 40 kb/d.



Weekly data from the Petroleum Association of Japan show that crude runs fell further in October, reaching a low of 3.44 mb/d in the middle of the month. Turnarounds at Showa Shell's Yokkaichi and Nippon Oil's Mizushima and Negishi plants contributed to offline capacity which averaged over 700 kb/d for the month. In November and December, there is almost no planned maintenance, as refiners gear up for peak heating oil (kerosene) demand. However, economic run cuts are expected to increase in November following Nippon oil's announcement that it would keep crude runs at 943 kb/d due to weak demand for kerosene. We have assumed that this implies run cuts of around 150 kb/d compared with a baseline of 90% capacity utilisation. Taiwan's CPC is reported to have also cut planned crude runs for November, lowering its throughputs by 20% or 150 kb/d, in response to low margins, with export volumes expected to be curtailed from January. Korean refiners are expected to increase crude runs in November by around 105 kb/d from October's levels ahead of peak winter heating demand, reversing October runs cuts and the impact of maintenance.

OECD Refinery Yields

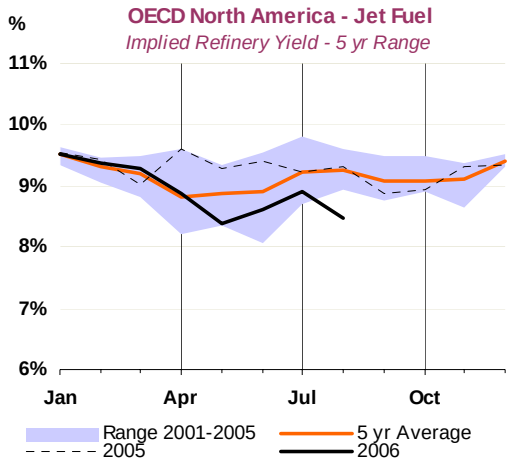
OECD refinery yield data for August show that gasoline and jet yields remained subdued compared with seasonal norms. Conversely gasoil and diesel yields continue to trend at the top of their five-year range, despite weak levels in the Pacific. OECD Fuel oil yields fell back slightly in August and are just beneath the five-year average.

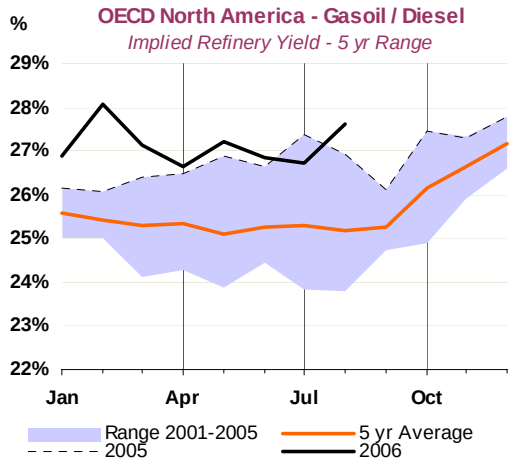
North American gasoline yields slipped slightly to 44.7% in August, as weaker (-1% versus July) Canadian gasoline yields (39.5%) weighed on the average. European and Pacific gasoline yields remained low by historical comparisons, reflecting the structural decline in demand. Europe continues to export significant volumes to address the growing mismatch between installed capacity at refineries aimed at producing gasoline (and indeed the need for hydrogen which is a by-product of naphtha reforming) and the continued dieselisation of transport fuels.

Jet/kero yields remain under pressure in North America, dropping below the five year range to 8.5%, which is against the seasonal trend of rising jet/kero yields. The shortfall is driven by low yields in the US and Canada, both of whom have introduced ULSD from 1 June. It is worth noting that ULSD cracks were stronger than jet fuel for US refiners, providing them with an incentive to maximise ULSD production at the expense of jet/kero. Conversely, European and Pacific jet yields increased and are both above their

respective five-year ranges. On a crack basis, European and Asian jet fuel crack values were above ULSD and gasoil in August, supporting a bias towards the lighter product.

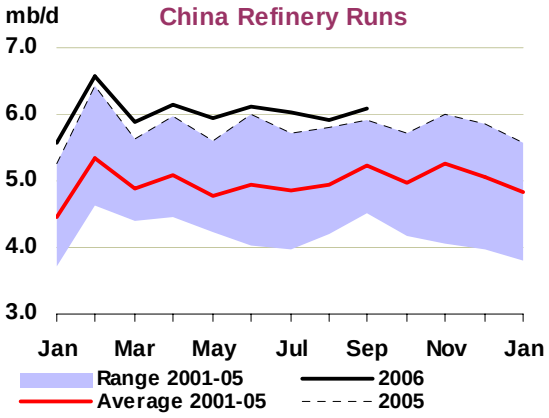
The flip side of the jet/kero yields is evident in gasoil and diesel yields, which continue to trend well above the five-year average despite weakness in the Pacific region. North American gasoil/diesel yields leapt to 27.6% compared with a five-year average of 25.2%. European yields slipped slightly but remain, at 40.2%, the highest of the three OECD regions. The Pacific saw very weak gasoil/diesel yields following the seasonal peak in June, which is driven by Korean tax changes.

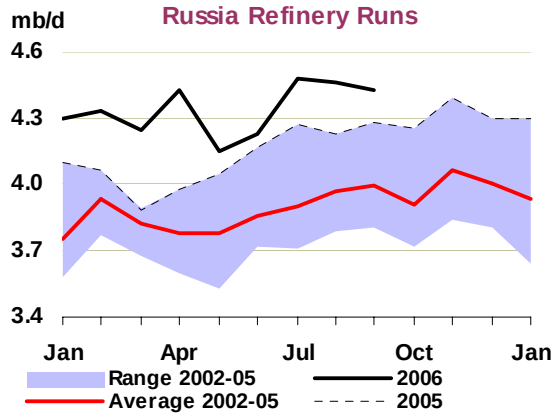




Non-OECD Throughput

Chinese crude runs increased by 180 kb/d in September to an average of 6.1 mb/d, representing growth of 3.4% from 2005. Several of PetroChina's refineries returned from August maintenance, boosting September crude runs. In addition, the start-up of the Hainan refinery has increased runs, with additional gains anticipated towards the end of the year. Chinese crude runs are expected to have fallen by 80 kb/d in October as planned maintenance at Sinopec's Zhenhai plant and run cuts by WEPEC curtail throughputs. Indian data suggest that crude runs reached 2.9 mb/d in September. The commissioning of Essar's Vadinar refinery now expected in November, with a target throughput of around 150 kb/d. A Further increase in crude runs is planned for the first quarter of next year when the plant starts up its catalytic cracker.



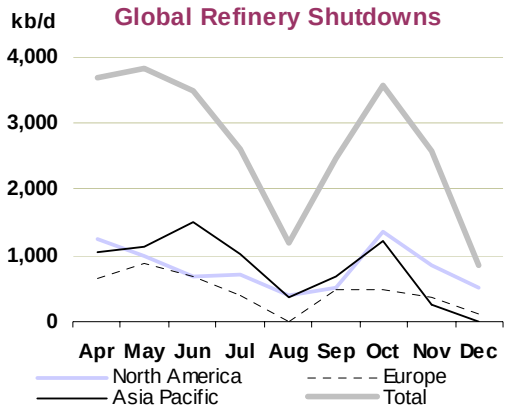


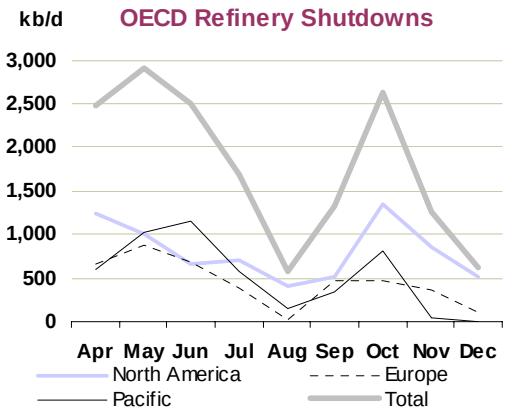
Russian crude runs dipped slightly in September to 4.43 mb/d from August's level of 4.46 mb/d. The volume of crude sent to Russian refineries is estimated to have increased by 5% in October as Russian oil companies seek to optimise the various uses for their crude in light of changes to the tax regulations. Tax rates on crude exports increased on 1 October to $238/mt from $216/mt, while product exports still attract lower rates of $93/mt for fuel oil and $172/mt for light products. This change has improved the economics of domestic product sales and product exports compared with crude exports. Consequently, increased crude runs in October are likely, with the possibility of further increases during November. Revisions to crude taxes from 1 December will reduce some of

the benefit to Russian oil companies in exporting products rather than crude, but this is not expected to curtail product exports by itself.

Offline Refinery Capacity

Offline capacity estimates for the fourth quarter have increased for refineries in the OECD and on a global basis. OECD offline distillation capacity is estimated to have been 1.3 mb/d in September, a decrease of 330 kb/d from last month's report, following delays to several planned turnarounds and a smaller than anticipated reduction in crude runs at other refineries. Consequently, October's OECD estimate has been revised up to 2.7 mb/d from last month's estimate of 2.2 mb/d. In November, offline capacity in the OECD is expected to decline to 1.6 mb/d and to fall further in December to 600 kb/d. North American offline capacity is currently estimated at 1.35 mb/d in October, falling to 1.0 mb/d in November and 500 kb/d in December.





Global offline capacity is now thought to have averaged 3.7 mb/d in October up from 2.8 mb/d last month. September's estimate is reduced to 2.5 mb/d from 2.8 mb/d due to the delayed start of some maintenance and smaller impact of other work.

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

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	24.5	25.4	25.6	25.3	25.6	25.5	25.5	25.1	25.1	25.5	26.0	25.4	25.7	25.4	25.9	26.1	25.8
Europe	15.4	15.5	15.6	15.2	15.6	15.7	15.5	15.7	15.1	15.4	15.7	15.5	15.6	15.1	15.5	15.7	15.5
Pacific	8.6	8.5	9.4	8.1	8.1	8.8	8.6	9.3	7.9	7.9	8.9	8.5	9.2	7.8	8.0	8.8	8.5
Total OECD	48.6	49.3	50.7	48.6	49.2	50.0	49.6	50.1	48.0	48.8	50.6	49.4	50.5	48.3	49.4	50.6	49.7
NON-OECD DEMAND																	
FSU	3.6	3.8	3.8	3.7	3.8	3.9	3.8	3.9	3.7	3.9	4.1	3.9	4.0	3.7	3.9	4.1	3.9
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	5.5	6.4	6.6	6.4	6.6	6.8	6.6	6.8	7.1	7.0	7.3	7.0	7.2	7.4	7.4	7.6	7.4
Other Asia	8.1	8.6	8.9	8.9	8.6	8.7	8.8	8.9	8.9	8.7	8.9	8.9	9.1	9.1	8.9	9.2	9.1
Latin America	4.7	5.0	5.0	5.1	5.2	5.1	5.1	5.1	5.2	5.3	5.2	5.2	5.2	5.3	5.4	5.3	5.3
Middle East	5.4	5.8	6.0	6.1	6.4	6.0	6.1	6.3	6.4	6.7	6.4	6.5	6.7	6.8	6.8	6.9	6.8
Africa	2.7	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	30.7	33.1	33.9	33.9	34.1	34.1	34.0	34.6	35.0	35.0	35.7	35.1	35.9	36.1	36.0	37.0	36.2
Total Demand[1]	79.3	82.4	84.5	82.4	83.3	84.1	83.6	84.8	83.0	83.9	86.3	84.5	86.4	84.4	85.4	87.6	85.9
OECD SUPPLY																	
North America	14.6	14.6	14.5	14.7	13.7	13.8	14.1	14.2	14.2	14.3	14.5	14.3	14.7	14.4	14.3	14.4	14.5
Europe	6.3	6.1	5.9	5.7	5.4	5.5	5.6	5.5	5.1	5.0	5.3	5.2	5.5	5.2	5.1	5.4	5.3
Pacific	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Total OECD	21.6	21.2	20.9	20.9	19.7	19.8	20.3	20.2	19.8	19.9	20.4	20.1	20.8	20.3	20.1	20.5	20.4
NON-OECD SUPPLY																	
FSU	10.3	11.2	11.5	11.5	11.7	11.9	11.6	11.7	12.0	12.2	12.2	12.0	12.4	12.5	12.6	12.8	12.6
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Other Asia	2.6	2.7	2.7	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.7
Latin America	4.0	4.1	4.2	4.4	4.3	4.3	4.3	4.4	4.4	4.4	4.6	4.4	4.6	4.6	4.7	4.8	4.7
Middle East	2.0	1.9	1.9	1.9	1.9	1.8	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Africa	3.0	3.4	3.5	3.6	3.8	3.9	3.7	4.0	3.9	4.1	4.2	4.0	4.3	4.4	4.6	4.8	4.5
Total Non-OECD	25.6	27.0	27.5	27.7	28.2	28.5	28.0	28.4	28.6	29.0	29.2	28.8	29.6	29.8	30.2	30.6	30.0
Processing Gains[2]	1.8	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Other Biofuels[3]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Total Non-OPEC[4]	49.1	50.1	50.5	50.6	49.8	50.3	50.3	50.7	50.5	50.9	51.7	51.0	52.7	52.3	52.6	53.3	52.7
OPEC																	
Crude[5]	27.1	28.9	29.3	29.8	30.0	29.9	29.8	29.9	29.8	30.0							
NGLs	3.7	4.2	4.4	4.4	4.5	4.5	4.5	4.6	4.7	4.7	4.7	4.7	4.8	4.8	4.9	5.0	4.9
Total OPEC	30.8	33.1	33.7	34.2	34.5	34.5	34.2	34.5	34.5	34.7							
Total Supply[6]	79.8	83.2	84.2	84.8	84.3	84.7	84.5	85.2	85.0	85.6							
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.1	0.1	-0.1	0.9	0.2	-0.5	0.1	0.0	0.6	1.1							
Government	0.2	0.1	0.1	0.3	0.0	-0.1	0.1	0.0	0.1	0.0							
Total	0.3	0.2	0.1	1.2	0.2	-0.6	0.2	0.0	0.7	1.2							
Floating Storage/Oil in Transit	0.2	0.0	-0.4	0.1	0.0	0.1	-0.1	0.1	-0.1	0.3							
Miscellaneous to balance[7]	0.1	0.6	0.0	1.1	0.9	1.1	0.8	0.3	1.3	0.3							
Total Stock Ch. & Misc	0.6	0.8	-0.4	2.4	1.0	0.6	0.9	0.4	1.9	1.8							
Memo items:																	
Call on OPEC crude + Stock ch.[8]	26.5	28.1	29.7	27.4	29.0	29.3	28.8	29.5	27.9	28.2	29.8	28.8	28.9	27.3	27.9	29.2	28.3
Total Demand ex. FSU	75.7	78.6	80.7	78.7	79.5	80.2	79.8	80.9	79.3	80.0	82.1	80.6	82.4	80.7	81.5	83.4	82.0
Total demand exc. FSU (% ch)[9]	1.9	3.9	2.4	1.6	1.6	0.2	1.5	0.2	0.8	0.6	2.4	1.0	1.9	1.7	1.9	1.6	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 Biofuels from sources outside Brazil and US.
4 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
5 As of the March 2006 OMR, Venezuelan Orinoco heavy crude production is included within Venezuelan crude estimates. Orimulsion fuel remains within the OPEC NGL & non-conventional category, but Orimulsion production will reportedly cease from January 2007.
6 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
7 Includes changes in non-reported stocks in OECD and non-OECD areas
8 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
9 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)

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	0.1	-	-
Europe	-	-	-	-	-	0.1	-	-	-	-	-	-	0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-0.1	-0.1	-0.1	-0.1
Total OECD	-	-	0.1	-	0.1	0.1	0.1	-	-	-0.2	-	-0.1	-	-0.1	-	-	-
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-0.2	0.1	-	-	-0.1	-0.1	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-0.1	-	-	-	-	-0.1	-	-	-	-	-	0.1	-0.2	0.2	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-0.1	-	-	-	-	-0.1	-	-0.1	0.1	-	-0.1	-	-0.4	0.2	-0.1
Total Demand	-	-	-	-	0.1	0.1	-	-0.1	-	-0.3	0.1	-0.1	-0.1	-	-0.4	0.2	-0.1
OECD SUPPLY																	
North America	-	-	0.1	0.1	-0.1	0.1	-	-	-	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Europe	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	0.1	0.1	-0.1	0.1	-	-	-	-	-	-	0.1	-	0.1	0.1	0.1
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-0.1	-0.1	-0.1
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-0.1	-0.3	-0.1	-0.2	-0.1	-0.1	-0.2	-0.1
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Biofuels	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1	0.1	0.1
Total Non-OPEC	-	-	0.1	0.1	-0.1	0.1	-	-	-	-	-0.2	-	-	0.1	0.2	-	0.1
OPEC																	
Crude	-	-	-	-	-	-	-	-	-	-0.1							
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OPEC	-	-	-	-	-	-	-	-	-	-0.1							
Total Supply	-	-	0.1	0.1	-0.1	0.1	-	-	-	-0.1							
STOCK CHANGES AND MISCELLANEOUS																	
REPORTED OECD																	
Industry	-	-	-	-	-	0.1	-	-	-								
Government	-	-	-	-	-	-	-	-	-								
Total	-	-	-	-	-	0.1	-	-	-								
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-								
Miscellaneous to balance	-	-	-	0.1	-0.1	-	-	0.1	-								
Total Stock Ch. & Misc	-	-	0.1	-	-0.2	0.1	-	0.1	-	0.2							
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-0.1	-	0.2	-0.1	-	-0.1	-	-0.3	0.3	-	-0.1	-0.1	-0.5	0.2	-0.1
Total Demand ex. FSU	-	-	-	-	0.1	0.1	-	-0.1	-	-0.3	-	-0.1	-0.1	-0.1	-0.4	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

	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)																
North America	25.37	25.61	25.33	25.58	25.48	25.50	25.12	25.08	25.51	25.98	25.43	25.70	25.41	25.87	26.09	25.77
Europe	15.48	15.62	15.17	15.56	15.70	15.51	15.72	15.06	15.42	15.72	15.48	15.59	15.06	15.51	15.68	15.46
Pacific	8.49	9.45	8.06	8.07	8.79	8.59	9.30	7.87	7.89	8.90	8.49	9.19	7.85	8.01	8.81	8.46
Total OECD	49.35	50.68	48.56	49.22	49.96	49.60	50.14	48.01	48.83	50.59	49.39	50.48	48.32	49.39	50.58	49.69
FSU	3.76	3.82	3.71	3.79	3.89	3.80	3.88	3.71	3.88	4.14	3.91	3.97	3.72	3.92	4.12	3.94
Europe	0.70	0.77	0.71	0.66	0.72	0.72	0.79	0.72	0.67	0.73	0.73	0.79	0.74	0.68	0.74	0.74
China	6.42	6.56	6.45	6.63	6.77	6.60	6.75	7.05	6.96	7.28	7.01	7.16	7.38	7.38	7.63	7.39
Other Asia	8.62	8.90	8.85	8.65	8.72	8.78	8.88	8.93	8.70	8.95	8.86	9.06	9.13	8.94	9.18	9.08
Latin America	4.96	4.96	5.12	5.18	5.10	5.09	5.07	5.20	5.27	5.22	5.19	5.17	5.30	5.39	5.32	5.29
Middle East	5.79	5.96	6.10	6.36	6.05	6.12	6.29	6.43	6.70	6.38	6.45	6.69	6.79	6.78	6.93	6.80
Africa	2.79	2.90	2.91	2.79	2.90	2.88	2.97	2.98	2.86	2.97	2.94	3.05	3.04	2.92	3.05	3.01
Total Non-OECD	33.05	33.87	33.86	34.06	34.15	33.99	34.62	35.03	35.05	35.67	35.10	35.90	36.10	36.01	36.98	36.25
World	82.40	84.55	82.42	83.28	84.11	83.59	84.76	83.04	83.88	86.27	84.49	86.38	84.42	85.40	87.56	85.94
of which:																
US50	*20.73*	*20.84*	*20.65*	*20.92*	*20.79*	*20.80*	*20.49*	*20.60*	*20.93*	*21.18*	*20.80*	*20.98*	*20.82*	*21.17*	*21.26*	*21.06*
Euro4	*8.27*	*8.25*	*7.95*	*8.26*	*8.21*	*8.17*	*8.37*	*7.90*	*8.08*	*8.20*	*8.14*	*8.23*	*7.86*	*8.13*	*8.17*	*8.10*
Japan	*5.29*	*6.00*	*4.94*	*5.03*	*5.46*	*5.35*	*5.96*	*4.78*	*4.80*	*5.47*	*5.25*	*5.76*	*4.70*	*4.87*	*5.40*	*5.18*
Korea	*2.16*	*2.40*	*2.07*	*2.01*	*2.23*	*2.18*	*2.28*	*2.03*	*2.02*	*2.32*	*2.16*	*2.34*	*2.06*	*2.06*	*2.31*	*2.19*
Mexico	*2.00*	*2.04*	*2.11*	*2.06*	*2.10*	*2.08*	*2.08*	*2.01*	*1.98*	*2.14*	*2.05*	*2.10*	*2.07*	*2.08*	*2.16*	*2.10*
Canada	*2.30*	*2.36*	*2.24*	*2.25*	*2.23*	*2.27*	*2.18*	*2.14*	*2.26*	*2.29*	*2.22*	*2.24*	*2.19*	*2.27*	*2.30*	*2.25*
Brazil	*2.15*	*2.12*	*2.18*	*2.25*	*2.21*	*2.19*	*2.17*	*2.19*	*2.27*	*2.26*	*2.22*	*2.21*	*2.23*	*2.30*	*2.29*	*2.26*
India	*2.57*	*2.72*	*2.59*	*2.47*	*2.56*	*2.59*	*2.74*	*2.70*	*2.50*	*2.65*	*2.64*	*2.79*	*2.76*	*2.56*	*2.71*	*2.70*
Annual Change (% per annum)																
North America	3.5	1.4	1.0	0.5	-0.9	0.5	-1.9	-1.0	-0.3	2.0	-0.3	2.3	1.3	1.4	0.4	1.4
Europe	0.3	0.7	0.7	0.6	-1.3	0.2	0.7	-0.7	-0.9	0.1	-0.2	-0.8	0.0	0.5	-0.2	-0.1
Pacific	-1.6	2.3	2.3	-0.5	0.6	1.2	-1.6	-2.4	-2.2	1.3	-1.2	-1.2	-0.3	1.5	-1.0	-0.3
Total OECD	1.5	1.3	1.2	0.4	-0.8	0.5	-1.1	-1.1	-0.8	1.3	-0.4	0.7	0.7	1.1	0.0	0.6
FSU	4.7	8.7	-0.2	0.0	-2.7	1.3	1.6	-0.1	2.5	6.4	2.7	2.3	0.3	0.9	-0.4	0.8
Europe	2.2	2.1	2.1	1.7	1.6	1.9	2.5	1.4	1.6	1.6	1.8	0.7	1.7	1.7	1.4	1.4
China	15.8	4.4	-1.3	5.4	2.7	2.8	2.9	9.4	5.0	7.6	6.2	6.1	4.6	6.0	4.8	5.4
Other Asia	6.8	4.3	2.4	2.5	-1.6	1.8	-0.2	0.9	0.7	2.6	1.0	2.1	2.2	2.7	2.6	2.4
Latin America	5.8	3.1	3.0	2.4	2.1	2.7	2.2	1.5	1.6	2.3	1.9	1.8	1.9	2.3	1.9	2.0
Middle East	6.9	5.7	5.8	5.6	5.3	5.6	5.4	5.4	5.4	5.6	5.4	6.5	5.6	1.2	8.6	5.4
Africa	4.1	3.3	3.3	2.5	2.7	3.0	2.4	2.3	2.4	2.4	2.4	2.7	2.0	2.4	2.5	2.4
Total Non-OECD	7.7	4.7	2.1	3.3	1.3	2.8	2.2	3.4	2.9	4.5	3.3	3.7	3.0	2.8	3.7	3.3
World	3.9	2.7	1.6	1.6	0.1	1.4	0.3	0.8	0.7	2.6	1.1	1.9	1.7	1.8	1.5	1.7
Annual Change (mb/d)																
North America	0.85	0.35	0.26	0.13	-0.23	0.13	-0.49	-0.24	-0.07	0.50	-0.07	0.58	0.33	0.36	0.11	0.35
Europe	0.05	0.11	0.11	0.09	-0.20	0.03	0.10	-0.11	-0.14	0.02	-0.03	-0.13	0.00	0.08	-0.04	-0.02
Pacific	-0.14	0.21	0.18	-0.04	0.06	0.10	-0.15	-0.19	-0.18	0.11	-0.10	-0.11	-0.02	0.12	-0.09	-0.03
Total OECD	0.75	0.67	0.56	0.19	-0.38	0.25	-0.54	-0.55	-0.39	0.63	-0.21	0.34	0.31	0.56	-0.01	0.30
FSU	0.17	0.31	-0.01	0.00	-0.11	0.05	0.06	0.00	0.09	0.25	0.10	0.09	0.01	0.04	-0.02	0.03
Europe	0.02	0.02	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
China	0.88	0.28	-0.09	0.34	0.18	0.18	0.19	0.61	0.33	0.52	0.41	0.41	0.33	0.42	0.35	0.38
Other Asia	0.55	0.37	0.20	0.21	-0.14	0.16	-0.02	0.08	0.06	0.23	0.09	0.19	0.20	0.23	0.24	0.21
Latin America	0.27	0.15	0.15	0.12	0.11	0.13	0.11	0.08	0.08	0.12	0.10	0.09	0.10	0.12	0.10	0.10
Middle East	0.37	0.32	0.34	0.34	0.31	0.32	0.32	0.33	0.34	0.34	0.33	0.41	0.36	0.08	0.55	0.35
Africa	0.11	0.09	0.09	0.07	0.08	0.08	0.07	0.07	0.07	0.07	0.07	0.08	0.06	0.07	0.07	0.07
Total Non-OECD	2.37	1.53	0.70	1.09	0.43	0.94	0.75	1.17	0.99	1.53	1.11	1.28	1.07	0.96	1.30	1.15
World	3.12	2.20	1.26	1.28	0.05	1.19	0.21	0.62	0.59	2.16	0.90	1.62	1.38	1.52	1.29	1.45
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	0.05	-0.01	0.08	0.04	0.04	0.01	-0.01	-0.04	-	-0.01	-0.01	-	0.07	0.03	0.03
Europe	-	0.03	0.02	0.01	0.06	0.03	-	0.02	0.01	-	0.01	0.05	0.01	0.01	-	0.02
Pacific	-	-	-	-	-	-	-	-	-0.15	-0.05	-0.05	-0.03	-0.06	-0.07	-0.06	-0.06
Total OECD	-	0.08	0.01	0.09	0.10	0.07	0.01	0.01	-0.17	-0.05	-0.05	0.01	-0.05	0.01	-0.03	-0.01
FSU	-	-	-	-	-	-	-	-0.01	-	0.04	0.01	0.01	0.01	0.01	0.01	0.01
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-0.03	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.03	-0.16	0.09	-0.03	-0.04	-0.05	-0.13	0.05	-0.04
Other Asia	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.02	-0.02	-0.01	-0.05	-	-0.03	-0.02	-0.02
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-0.01	-0.03	-	-0.01
Middle East	-	-0.07	0.05	0.03	-0.01	-	-0.08	0.05	0.05	-0.01	-	-0.01	0.06	-0.23	0.19	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-0.04	-0.09	0.02	-	-0.04	-0.03	-0.11	0.01	-0.14	0.10	-0.03	-0.09	0.01	-0.41	0.23	-0.06
World	-0.04	-0.02	0.03	0.09	0.06	0.04	-0.10	0.02	-0.31	0.06	-0.08	-0.08	-0.05	-0.39	0.20	-0.08
Revisions to Oil Demand Growth from Last Month's Report (mb/d)																
World	-0.01	0.06	0.01	0.13	0.11	0.08	-0.08	-0.02	-0.40	-0.01	-0.13	0.02	-0.07	-0.08	0.15	0.01

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2005	2006	2007	2Q06	3Q06	4Q06	1Q07	2Q07	Aug 06	Sep 06	Oct 06
OPEC											
Crude Oil											
Saudi Arabia	9.06			9.02	8.95				8.97	8.86	8.76
Iran	3.88			3.78	4.05				4.05	3.85	3.75
Iraq	1.81			1.99	2.04				2.00	2.05	1.92
UAE	2.46			2.63	2.65				2.65	2.65	2.63
Kuwait	2.13			2.22	2.20				2.20	2.21	2.22
Neutral Zone	0.58			0.58	0.57				0.57	0.58	0.58
Qatar	0.80			0.82	0.83				0.84	0.82	0.82
Nigeria	2.40			2.19	2.24				2.27	2.19	2.24
Libya	1.64			1.70	1.73				1.72	1.75	1.75
Algeria	1.34			1.36	1.34				1.33	1.35	1.35
Venezuela	2.71			2.61	2.51				2.52	2.55	2.51
Indonesia	0.94			0.91	0.87				0.86	0.87	0.86
Total Crude Oil	29.76			29.80	29.98				29.97	29.71	29.37
Total NGLs[1]	4.46	4.69	4.89	4.66	4.72	4.75	4.79	4.82	4.73	4.70	4.74
Total OPEC	34.23			34.46	34.70				34.70	34.41	34.12
NON-OPEC[2]											
OECD											
North America	14.14	14.29	14.45	14.19	14.32	14.48	14.72	14.37	14.33	14.33	14.47
United States	7.32	7.36	7.46	7.36	7.41	7.46	7.58	7.51	7.43	7.34	7.48
Mexico	3.76	3.71	3.59	3.77	3.69	3.62	3.62	3.61	3.70	3.69	3.64
Canada	3.06	3.22	3.40	3.06	3.22	3.40	3.52	3.25	3.21	3.30	3.35
Europe	5.60	5.23	5.30	5.13	4.97	5.30	5.46	5.24	4.81	4.89	5.05
UK	1.83	1.68	1.70	1.66	1.51	1.72	1.82	1.70	1.33	1.60	1.64
Norway	2.97	2.80	2.85	2.70	2.74	2.82	2.88	2.79	2.72	2.61	2.64
Others	0.80	0.76	0.75	0.77	0.73	0.76	0.75	0.75	0.75	0.68	0.76
Pacific	0.58	0.57	0.68	0.50	0.64	0.64	0.67	0.66	0.65	0.64	0.63
Australia	0.54	0.53	0.64	0.46	0.60	0.60	0.63	0.62	0.62	0.60	0.59
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	20.33	20.10	20.44	19.83	19.93	20.42	20.85	20.27	19.79	19.86	20.15
NON-OECD											
Former USSR	11.64	12.04	12.58	12.02	12.20	12.22	12.36	12.53	12.30	12.11	12.14
Russia	9.48	9.69	9.97	9.67	9.78	9.76	9.83	9.94	9.83	9.76	9.76
Others	2.16	2.35	2.61	2.35	2.42	2.45	2.53	2.59	2.47	2.35	2.38
Asia	6.30	6.39	6.45	6.38	6.36	6.41	6.44	6.43	6.32	6.34	6.40
China	3.62	3.69	3.72	3.70	3.68	3.69	3.71	3.71	3.69	3.65	3.69
Malaysia	0.77	0.74	0.74	0.71	0.74	0.73	0.74	0.73	0.74	0.73	0.73
India	0.78	0.79	0.80	0.79	0.78	0.80	0.80	0.80	0.76	0.78	0.79
Others	1.13	1.18	1.19	1.18	1.16	1.18	1.19	1.19	1.14	1.18	1.18
Europe	0.16	0.15	0.13	0.15	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Latin America	4.30	4.44	4.66	4.42	4.43	4.56	4.61	4.61	4.40	4.43	4.51
Brazil	1.99	2.12	2.33	2.08	2.09	2.23	2.28	2.28	2.08	2.10	2.19
Argentina	0.78	0.77	0.76	0.78	0.78	0.77	0.77	0.76	0.78	0.78	0.77
Colombia	0.53	0.53	0.53	0.54	0.53	0.53	0.53	0.53	0.51	0.53	0.53
Ecuador	0.53	0.54	0.56	0.55	0.55	0.55	0.55	0.56	0.55	0.55	0.55
Others	0.47	0.48	0.48	0.47	0.48	0.48	0.49	0.48	0.48	0.48	0.47
Middle East[3]	1.86	1.75	1.69	1.75	1.73	1.71	1.71	1.70	1.73	1.72	1.72
Oman	0.79	0.74	0.71	0.74	0.73	0.72	0.71	0.71	0.73	0.73	0.72
Syria	0.46	0.42	0.38	0.42	0.41	0.40	0.39	0.38	0.41	0.41	0.41
Yemen	0.42	0.40	0.41	0.39	0.39	0.39	0.42	0.41	0.39	0.39	0.39
Africa	3.72	4.02	4.53	3.88	4.08	4.16	4.31	4.41	4.08	4.15	4.05
Egypt	0.70	0.69	0.68	0.68	0.69	0.69	0.69	0.68	0.69	0.69	0.69
Angola	1.25	1.40	1.72	1.33	1.45	1.41	1.53	1.60	1.45	1.44	1.32
Gabon	0.23	0.23	0.23	0.24	0.23	0.23	0.23	0.23	0.23	0.23	0.23
Others	1.54	1.69	1.90	1.63	1.71	1.83	1.86	1.90	1.70	1.79	1.81
Total Non-OECD	27.97	28.79	30.04	28.59	28.95	29.20	29.57	29.82	28.98	28.90	28.96
Processing Gains[4]	1.86	1.90	1.92	1.89	1.88	1.92	1.92	1.92	1.88	1.88	1.92
Other Biofuels[5]	0.12	0.18	0.34	0.18	0.18	0.18	0.34	0.34	0.18	0.18	0.18
TOTAL NON-OPEC	50.28	50.96	52.74	50.49	50.94	51.71	52.68	52.35	50.82	50.81	51.20
TOTAL SUPPLY	84.51			84.95	85.64				85.52	85.22	85.32

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Venezuelan Orimulsion (but not Orinoco extra-heavy oil), and non-oil inputs to Saudi Arabian MTBE. Orimulsion production will reportedly cease from January 2007.
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.
5 Comprises Fuel Ethanol and Biodiesel supply from outside Brazil and US.

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			
	May2006	Jun2006	Jul2006	Aug2006	Sep2006*	Sep2003	Sep2004	Sep2005	4Q2005	1Q2006	2Q2006	3Q2006
North America												
Crude	461.7	456.9	457.6	454.9	457.4	398.0	391.3	433.1	0.26	0.07	-0.07	0.01
Motor Gasoline	242.3	241.6	238.9	237.9	246.5	228.7	234.6	227.0	0.10	0.07	-0.01	0.05
Middle Distillate	195.9	199.9	209.6	219.1	231.3	206.3	195.4	198.5	0.16	-0.20	0.06	0.34
Residual Fuel Oil	49.7	52.3	52.5	52.4	52.8	40.9	41.2	42.0	0.03	0.07	0.02	0.01
Total Products[3]	658.4	669.5	687.4	703.1	727.5	655.6	653.9	662.7	-0.04	-0.26	0.38	0.63
Total[4]	1267.5	1273.9	1300.4	1319.6	1345.6	1215.4	1206.0	1256.1	0.01	-0.20	0.38	0.78
Europe												
Crude	346.6	338.3	350.1	333.6	323.7	317.8	333.1	339.8	-0.13	0.19	-0.07	-0.16
Motor Gasoline	104.0	100.4	98.5	102.0	103.9	109.1	111.2	103.8	0.09	-0.01	-0.12	0.04
Middle Distillate	261.3	256.2	262.7	269.2	266.8	251.6	250.6	258.7	-0.02	-0.11	0.11	0.11
Residual Fuel Oil	73.6	75.2	74.6	76.5	77.6	71.4	77.0	75.4	-0.02	-0.04	0.06	0.03
Total Products[3]	540.9	533.0	540.3	553.7	554.2	535.3	541.0	538.2	0.07	-0.16	0.04	0.23
Total[4]	961.5	944.2	964.7	961.7	951.4	925.7	945.1	953.1	-0.08	0.04	-0.06	0.08
Pacific												
Crude	185.5	181.1	175.9	173.4	176.9	183.9	168.7	168.1	-0.12	0.15	0.11	-0.05
Motor Gasoline	24.8	24.6	23.4	23.7	24.3	23.9	23.9	22.8	0.00	0.02	0.00	0.00
Middle Distillate	67.0	69.8	75.4	80.8	85.7	83.2	74.8	77.9	-0.18	-0.01	0.10	0.17
Residual Fuel Oil	24.5	23.1	25.1	24.6	23.9	23.2	21.3	23.9	-0.04	-0.01	0.04	0.01
Total Products[3]	180.5	183.1	192.5	203.0	212.2	204.3	186.2	191.5	-0.26	0.00	0.17	0.32
Total[4]	438.1	435.5	440.2	449.3	462.2	459.2	429.6	432.0	-0.42	0.16	0.30	0.29
Total OECD												
Crude	993.8	976.3	983.5	962.0	958.1	899.6	893.0	941.0	0.01	0.41	-0.03	-0.20
Motor Gasoline	371.1	366.6	360.8	363.6	374.7	361.7	369.7	353.6	0.19	0.08	-0.12	0.09
Middle Distillate	524.2	525.9	547.7	569.1	583.8	541.2	520.8	535.1	-0.05	-0.33	0.27	0.63
Residual Fuel Oil	147.8	150.6	152.2	153.5	154.2	135.5	139.5	141.3	-0.03	0.02	0.12	0.04
Total Products[3]	1379.9	1385.7	1420.1	1459.9	1493.9	1395.1	1381.0	1392.4	-0.24	-0.42	0.58	1.18
Total[4]	2667.1	2653.7	2705.2	2730.6	2759.2	2600.3	2580.6	2641.2	-0.49	0.00	0.63	1.15

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			
	May2006	Jun2006	Jul2006	Aug2006	Sep2006*	Sep2003	Sep2004	Sep2005	4Q2005	1Q2006	2Q2006	3Q2006
North America												
Crude	688.6	687.9	687.9	687.8	687.8	624.4	670.3	693.7	-0.10	0.02	0.02	0.00
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	171.9	173.4	174.5	174.5	174.5	151.3	157.9	166.4	0.01	0.04	0.04	0.01
Products	233.1	236.3	235.8	237.3	237.3	211.3	207.8	237.6	0.02	-0.03	0.00	0.01
Pacific												
Crude	380.5	380.9	382.2	380.8	380.7	382.8	384.9	382.1	-0.01	-0.01	0.00	0.00
Products	11.7	11.8	11.8	11.8	11.8	10.3	11.0	11.2	0.00	0.00	0.00	0.00
Total OECD												
Crude	1241.0	1242.1	1244.6	1243.1	1243.1	1158.5	1213.1	1242.1	-0.10	0.04	0.06	0.01
Products	246.8	250.1	249.7	251.2	251.2	223.6	220.9	250.8	0.02	-0.04	0.01	0.01
Total[4]	1488.7	1493.2	1495.3	1495.3	1495.2	1383.1	1434.9	1493.8	-0.08	0.01	0.07	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 2005		End December 2005		End March 2006		End June 2006		End September 2006 [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	170.5	77	178.1	82	169.7	79	167.9	-	-	-
Mexico	52.8	25	43.9	21	41.7	21	42.1	-	-	-
United States[4]	1706.3	82	1699.6	83	1693.7	83	1731.6	-	-	-
Total[4]	1951.7	77	1943.7	78	1927.2	77	1963.7	77	2035.4	78
Pacific										
Australia	34.1	37	32.7	36	35.5	39	38.9	-	-	-
Japan	637.9	117	612.1	103	620.1	130	627.2	-	-	-
Korea	145.4	65	134.9	59	137.4	68	155.4	-	-	-
New Zealand	7.9	48	7.2	44	6.8	45	6.7	-	-	-
Total	825.3	94	786.8	85	799.8	102	828.2	105	854.7	96
Europe[5]										
Austria	19.8	68	20.4	72	18.7	66	19.2	-	-	-
Belgium	30.3	51	28.6	45	27.3	52	30.4	-	-	-
Czech Republic	16.7	78	18.8	98	19.6	90	19.5	-	-	-
Denmark	20.5	111	20.3	102	19.5	99	20.4	-	-	-
Finland	27.3	123	25.1	113	26.7	120	30.5	-	-	-
France	191.4	97	195.6	93	196.2	104	188.7	-	-	-
Germany	275.8	105	282.6	111	279.9	110	281.4	-	-	-
Greece	34.6	75	33.1	69	35.4	92	34.9	-	-	-
Hungary	17.1	104	17.6	120	20.8	127	17.6	-	-	-
Ireland	13.2	65	11.6	55	13.1	72	12.6	-	-	-
Italy	137.0	77	132.0	71	131.5	81	126.0	-	-	-
Luxembourg	0.8	12	0.8	11	0.9	15	1.0	-	-	-
Netherlands	115.7	115	116.4	116	120.5	121	123.1	-	-	-
Norway	30.2	108	30.7	123	21.9	91	21.8	-	-	-
Poland	33.8	69	35.2	79	35.5	74	35.7	-	-	-
Portugal	26.8	82	25.7	78	24.7	83	24.7	-	-	-
Slovak Republic	5.1	59	6.5	83	8.3	102	7.7	-	-	-
Spain	131.7	84	128.6	79	130.2	84	129.2	-	-	-
Sweden	34.6	95	38.0	102	38.4	109	39.6	-	-	-
Switzerland	38.9	137	37.7	128	37.7	144	39.3	-	-	-
Turkey	50.9	77	51.1	100	51.6	79	51.6	-	-	-
United Kingdom	105.8	58	96.3	52	97.8	53	100.0	-	-	-
Total	1358.0	87	1352.3	86	1356.4	90	1354.9	88	1364.3	87
Total OECD	4135.0	83	4082.9	82	4083.4	85	4146.8	85	4254.4	84
DAYS OF IEA Net Imports[6]	-	116	-	114	-	115	-	116	-	-

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 2006 and September 2006 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]*		
3Q2003	3983	1383	2600	80	28	53
4Q2003	3928	1411	2517	79	28	50
1Q2004	3888	1423	2465	81	30	51
2Q2004	3974	1429	2545	81	29	52
3Q2004	4016	1435	2581	80	29	51
4Q2004	3999	1450	2548	79	29	50
1Q2005	4006	1462	2543	82	30	52
2Q2005	4118	1494	2624	84	30	53
3Q2005	4135	1494	2641	83	30	53
4Q2005	4083	1487	2596	82	30	52
1Q2006	4083	1487	2596	85	31	54
2Q2006	4147	1493	2654	85	31	54
3Q2006	4254	1495	2759	84	30	55

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 2Q2006 and 3Q2006 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2003	2004	2005	3Q05	4Q05	1Q06	2Q06	Jun 06	Jul 06	Aug 06	Year Earlier Aug 05	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.55	0.46	0.41	0.52	0.51	0.68	0.57	0.62	0.68	0.31	0.37
Europe	1.00	1.03	0.90	0.92	0.91	0.83	0.80	0.84	0.75	0.69	0.98	-0.29
Pacific	1.18	1.24	1.31	1.25	1.37	1.40	1.33	1.20	1.28	1.30	1.19	0.10
Saudi Medium												
North America	0.83	0.80	0.81	0.58	0.81	0.65	0.61	0.50	0.67	0.61	0.48	0.13
Europe	0.11	0.11	0.16	0.20	0.16	0.17	0.14	0.15	0.13	0.13	0.19	-0.06
Pacific	0.24	0.23	0.26	0.27	0.32	0.38	0.35	0.35	0.36	0.35	0.33	0.02
Saudi Heavy												
North America	0.30	0.22	0.17	0.20	0.16	0.21	0.21	0.28	0.18	0.24	0.18	0.07
Europe	0.19	0.23	0.23	0.27	0.26	0.14	0.22	0.25	0.22	0.18	0.28	-0.10
Pacific	0.16	0.15	0.25	0.26	0.29	0.25	0.20	0.19	0.20	0.24	0.26	-0.02
Iraqi Basrah Light[2]												
North America	0.44	0.71	0.60	0.56	0.59	0.44	0.60	0.72	0.60	0.60	0.31	0.29
Europe	0.09	0.21	0.23	0.24	0.31	0.24	0.29	0.23	0.37	0.42	0.15	0.26
Pacific	0.03	0.12	0.06	0.06	0.06	0.08	0.09	0.14	0.03	0.13	0.06	0.07
Iraqi Kirkuk												
North America	0.06	0.02	..	..	..	..	..	..	..	0.03	..	..
Europe	0.12	0.08	0.05	0.13	0.03	..	..	..	0.06	0.03	0.07	-0.04
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.19	0.24	0.20	0.16	0.22	0.20	0.27	0.30	0.40	0.23	0.20	0.03
Pacific	0.17	0.16	0.15	0.14	0.15	0.19	0.12	0.03	0.08	0.08	0.16	-0.08
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.59	0.57	0.63	0.71	0.57	0.48	0.57	0.72	0.76	0.48	0.68	-0.20
Pacific	0.69	0.65	0.62	0.52	0.63	0.64	0.48	0.35	0.52	0.49	0.43	0.06
Venezuelan Light & Medium												
North America	0.69	0.67	0.82	0.79	0.81	0.76	0.68	0.59	0.61	0.49	0.84	-0.35
Europe	0.02	0.01	0.04	0.06	0.07	0.12	0.15	0.22	0.06	0.10	0.13	-0.03
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.60	0.88	0.72	0.66	0.56	0.72	0.72	0.73	0.66	0.78	0.77	0.00
Europe	0.06	0.05	0.06	0.08	0.06	0.08	0.05	0.05	0.05	0.07	0.10	-0.02
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	1.32	1.36	1.27	1.17	1.25	1.26	1.24	1.26	1.33	1.35	1.36	-0.01
Europe	0.16	0.16	0.17	0.16	0.18	0.13	0.20	0.21	0.17	0.19	0.15	0.05
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.00	..	0.03	0.02	0.10	0.09	0.03	0.01	0.01	0.00	0.01	-0.01
Europe	0.00	0.01	0.03	0.02	0.05	0.01	0.00	..	..	..	0.01	..
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.14	0.12	0.13	0.16	0.09	..	0.16	0.24	0.10	0.22	0.18	0.04
Europe	1.62	1.86	1.77	1.76	1.69	1.68	1.83	1.90	1.62	1.68	1.86	-0.18
Pacific	0.00	0.01	0.00	0.01	..	..	..	..	0.03	..	..	..
Nigerian Light[4]												
North America	0.63	0.80	0.90	0.94	0.90	0.87	0.79	0.78	0.84	0.85	0.94	-0.09
Europe	0.41	0.28	0.35	0.41	0.41	0.28	0.27	0.30	0.44	0.46	0.46	0.00
Pacific	0.08	0.11	0.05	0.07	0.02	0.09	0.03	0.06	0.03	..	0.04	..
Nigerian Medium												
North America	0.17	0.23	0.17	0.13	0.15	0.19	0.17	0.23	0.22	0.02	0.19	-0.17
Europe	0.06	0.04	0.07	0.08	0.07	0.08	0.08	0.13	0.05	0.10	0.08	0.02
Pacific	0.01	0.01	0.01	..	..	..	..	..	..	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)

	2003	2004	2005	3Q2005	4Q2005	1Q2006	2Q2006	Jun-06	Jul-06	Aug-06	Year Earlier Aug-05	Year Earlier % change
Crude Oil												
North America	8069	8431	8384	8251	8101	7740	8265	8640	8479	8607	8471	2%
Europe	9096	9478	9792	10070	9954	9382	9771	10246	10205	10150	9939	2%
Pacific	6711	6659	6801	6643	6967	7399	6511	5947	6624	6768	6657	2%
Total OECD	23876	24569	24978	24964	25022	24521	24546	24832	25308	25524	25067	2%
LPG												
North America	27	24	18	18	30	8	8	10	16	20	11	80%
Europe	193	225	248	222	249	280	242	253	205	224	212	6%
Pacific	541	541	527	500	486	651	575	547	545	643	455	41%
Total OECD	760	790	793	740	764	939	825	809	766	887	678	31%
Naphtha												
North America	67	99	110	151	76	41	49	36	47	74	160	-54%
Europe	305	282	273	295	281	342	272	250	255	372	249	49%
Pacific	770	769	746	693	760	692	731	844	830	797	715	12%
Total OECD	1142	1150	1129	1140	1116	1074	1052	1130	1132	1243	1123	11%
Gasoline[3]												
North America	669	794	1016	1046	1148	1113	1365	1279	1120	1344	941	43%
Europe	150	137	165	208	120	194	148	197	178	32	248	-87%
Pacific	70	105	102	93	90	86	145	160	93	66	109	-39%
Total OECD	888	1035	1283	1346	1358	1393	1658	1636	1392	1442	1299	11%
Jet & Kerosene												
North America	97	101	130	139	268	79	191	139	175	234	91	156%
Europe	271	293	375	450	371	319	382	432	328	437	476	-8%
Pacific	102	77	66	48	49	131	39	38	43	40	38	3%
Total OECD	470	471	571	637	687	529	612	609	546	711	606	17%
Gasoil/Diesel												
North America	126	123	142	99	267	210	173	128	159	190	105	81%
Europe	652	751	845	807	867	1073	927	808	972	722	753	-4%
Pacific	73	74	79	79	83	80	94	96	64	73	73	0%
Total OECD	850	947	1066	984	1217	1363	1193	1032	1195	985	931	6%
Heavy Fuel Oil												
North America	326	453	525	566	610	481	320	371	317	325	540	-40%
Europe	398	405	490	526	473	521	489	542	466	388	536	-28%
Pacific	88	76	85	90	82	122	105	107	91	94	82	14%
Total OECD	812	935	1100	1182	1166	1124	915	1019	874	806	1158	-30%
Other Products												
North America	680	872	1005	1166	1049	972	1162	1149	1279	1334	1050	27%
Europe	690	676	781	797	787	888	861	840	940	862	767	12%
Pacific	235	256	247	225	263	271	208	185	269	263	222	18%
Total OECD	1605	1805	2033	2188	2099	2131	2231	2174	2488	2459	2039	21%
Total Products												
North America	1991	2466	2947	3185	3447	2903	3268	3112	3113	3520	2898	21%
Europe	2657	2767	3177	3305	3148	3619	3321	3321	3344	3037	3241	-6%
Pacific	1879	1898	1852	1728	1812	2032	1896	1977	1935	1976	1695	17%
Total OECD	6527	7132	7976	8217	8407	8554	8485	8410	8393	8534	7834	9%
Total Oil												
North America	10061	10897	11332	11436	11548	10643	11533	11752	11593	12127	11369	7%
Europe	11753	12246	12970	13375	13102	13001	13092	13566	13549	13188	13180	0%
Pacific	8590	8558	8653	8370	8779	9431	8407	7924	8559	8743	8352	5%
Total OECD	30403	31700	32954	33181	33429	33075	33031	33242	33701	34058	32901	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

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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 2006), 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 Platts prices, converted when appropriate to US$ per barrel according to the Platts specification of products (©2006 Platts - a division of McGraw-Hill Inc.).

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OIL MARKET REPORT

A MONTHLY OIL MARKET AND STOCKS ASSESSMENT

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INTERNATIONAL ENERGY AGENCY

AGENCE INTERNATIONALE DE L'ENERGIE

13 December 2006

HIGHLIGHTS

- **Total OECD industry stocks** fell by 40 mb in October, to 2,721 mb, some 33 mb higher than last year. The decline was centred on US product stocks following strong demand and protracted refinery maintenance. Weekly data show this trend continued in November. Forward demand cover fell to 54 days in October, one day lower than September but one day higher than last year.
- **Tighter market fundamentals** caused crude futures to rise above the recent $58-62/bbl range in late November. Lower OPEC crude output and falling US product stocks outweighed unusually warm weather. Markets focused on the impact of potential further OPEC cuts arising from its 14 December meeting.
- **Total November oil supply** fell 50 kb/d to 85.4 mb/d. OPEC reductions countered higher OECD supply. Non-OPEC estimates are cut by 40 kb/d in 2006 and by 115 kb/d for 2007. Non-OPEC growth averages 650 kb/d this year and 1.7 mb/d next, supply reaching 52.6 mb/d in 2007. North America, the FSU, Brazil, Angola and Sudan drive 2007 growth.
- **OPEC crude supply** fell 555 kb/d in November to 28.9 mb/d, on lower output from Saudi Arabia, the UAE, Iran, Iraq and Venezuela. Effective spare capacity is 2.4 mb/d, a figure which excludes disrupted Iraqi and Nigerian supply. OPEC-10 output of 27.1 mb/d was 610 kb/d below September levels, versus a proposed 1.2 mb/d cut. The 'call on OPEC crude and stock change' is 29.8 mb/d for 4Q06, but eases in 2007.
- **Global oil product demand** remains unchanged at 84.5 mb/d in 2006 (+1.1% versus 2005) and 85.9 mb/d in 2007 (+1.7%). The 2007 forecast faces downside risks, due to the uncertainties surrounding the US economy. China's 2006 demand growth rate has been revised down to 5.6% given weak apparent demand over the past three months.
- **OECD crude throughputs** fell by 1.5 mb/d to 38.3 mb/d in October as the seasonal peak of autumn maintenance cut runs in all regions. Unplanned outages and previously unreported maintenance reduced the expected November rebound. December should see higher runs as refiners increase throughputs to meet peak heating-related demand.

Next Issue: 18 January 2007

CONTENTS

HIGHLIGHTS....1

CONTENTS....2

COLD COMFORT....3

DEMAND....4
- Summary....4
- Worldwide Overview....4
- OECD....5
  - North America....6
  - Europe....8
  - Pacific....9
- Non-OECD....10
  - China....10
  - Other Non-OECD....12
- Argentina's Gasoil Conundrum....13

SUPPLY....14
- Summary....14
- OPEC....15
- Potential New OPEC Members....17
- OECD....18
  - North America....18
  - North Sea....19
- What a Difference a Year Makes: Minimal 2006 Hurricane Impact in US GOM....19
- Former Soviet Union (FSU)....20
- Storm Clouds on the FSU Supply Horizon....21
- Other Non-OPEC....22
  - Revisions to Other Non-OPEC Estimates....22

OECD STOCKS....24
- Summary....24
- OECD Industry Stock Changes in October 2006....25
  - OECD North America....25
  - OECD Europe....25
  - OECD Pacific....26
- OECD Inventory Position at End-October and Revisions to Preliminary Data....26
- Recent Developments in ARA Independent Storage....27
- Recent Developments in Singapore Stocks....27

PRICES....29
- Summary....29
- Overview....29
- Spot Crude Oil Prices....30
  - Delivered Crude Prices in September....32
- Refining Margins....32
- Spot Product Prices....32
  - End-User Product Prices in November....35
- Freight....35

REFINING....37
- Summary....37
- Refinery Throughput....37
  - OECD North America....38
  - OECD Europe....39
  - OECD Pacific....39
- OECD Refinery Yields....40
- Non-OECD Throughput....41
- Offline Refinery Capacity....41

TABLES....42

OIL MARKET REPORT CONTACTS

COLD COMFORT

Arguably, oil's bull market began with the recovery from the price collapse in 1999, but there is no doubt that the rally truly kicked off in 2004 following an unexpected surge in global demand. A year of supply-side woes followed, with slowing Russian production growth allied to the hurricane damage from Rita and Katrina. But if 2006 was, until recently, gaining the sobriquet of "year of the product spec.", as it draws to a close it could very quickly become better known for some dramatic inventory shifts.

The 33 mb rise in September OECD total oil stocks was more than reversed by a 40 mb stock draw in October, despite an exceptionally mild start to the fourth quarter in Europe and relatively normal weather in the US. To this, we can also tentatively add November's near 20 mb draw in US stocks, a 3.7 mb fall in Japanese inventories and a decline in independent storage in northwest Europe.

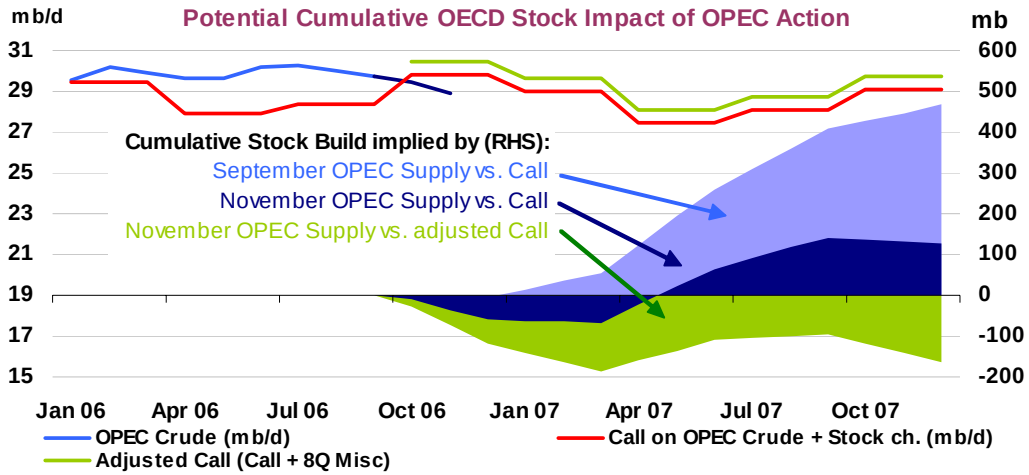
Heavy and protracted refinery maintenance in the US naturally resulted in a sharp decline in product inventories, but the accompanying fall in global crude production appears to have dampened a normally offsetting rise in crude stocks. Admittedly, some of October's primary inventory draw may have been exaggerated by consumer and wholesale restocking, but taken together with November's limited preliminary data, the draws would appear to confirm recent trends in the primary balance.

There remain considerable uncertainties over the levels of both supply and demand over the coming months: the path of global GDP, Iraqi and Nigerian output, OPEC discipline and the outcome of the 14 December meeting in Abuja, but it is still a useful exercise to estimate the impact of recent changes in OPEC output on future stock levels.

The graph below provides a graphical representation of the cumulative stock change implied by three scenarios for OPEC production, based on:

1. September OPEC production and the current 'call on OPEC + stock change'*(call)* **(light blue)**
2. November OPEC production and the *call* **(dark blue)**
3. November OPEC production and the *call*, plus an adjustment for statistical difference **(green)**

The light blue area depicts the outcome had September production been maintained. The dark blue and green areas represent the cumulative stock build/draw implied by the current OPEC cuts, based (respectively) on the call on OPEC + stock change *(call)* and the *call* together with an adjustment for the miscellaneous-to-balance. Although the miscellaneous-to-balance could represent either under-reported demand, over-reported supply or unreported stock builds, including it in the calculation shows a more realistic range of outcomes. It could be argued that a further adjustment should be made for known risks to non-OPEC supply, which can average 300-400 kb/d, but for now we feel that there are offsetting downside risks to global GDP, and thus oil demand growth.



Without doubt, November's output cuts have the potential to tighten the oil market this winter, and offer little prospect, allowing for demand growth, of a recovery in stock cover above the current 54 days; cold comfort for a risk-prone global economy already facing another winter with high oil prices.

DEMAND

Summary

- **Global oil product demand growth** remains unchanged at +1.1% in 2006 (84.5 mb/d) and +1.7% in 2007 (85.9 mb/d), as minor downward adjustments in OECD countries were offset by upward revisions in non-OECD countries. The 2007 forecast, though, faces downside risks, given the uncertainties surrounding the US economy.

Global Oil Demand from 2005 to 2007

	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)	84.5	82.4	83.3	84.1	83.6	84.8	83.0	83.9	86.2	84.5	86.3	84.5	85.5	87.5	85.9
Annual Change (%)	2.7	1.6	1.6	0.1	1.4	0.3	0.7	0.8	2.5	1.1	1.7	1.7	1.9	1.5	1.7
Annual Change (mb/d)	2.2	1.3	1.3	0.0	1.2	0.3	0.6	0.7	2.1	0.9	1.5	1.4	1.6	1.3	1.4
Changes from last month's report (mb/d)	-	-	-	-	-	0.0	0.0	0.1	-0.1	-	-0.1	0.0	0.1	-0.1	0.0

- **OECD oil product demand** projections have been virtually maintained at 49.4 mb/d in 2006 (-0.5% versus 2005) and 49.6 mb/d in 2007 (+0.5%). Support continues to be provided by strong US demand, even after accounting for last year's hurricane-affected baseline. OECD Europe and the Pacific, meanwhile, will likely continue to see a gradual demand fall.

Global Oil Demand by Region
(million barrels per day)

	Demand		Annual Change			Annual Change (%)		
	2006	2007	2005	2006	2007	2005	2006	2007
North America	25.44	25.76	0.13	-0.06	0.32	0.5	-0.3	1.3
Europe	16.20	16.19	0.04	-0.03	-0.01	0.2	-0.2	-0.1
OECD Pacific	8.47	8.44	0.10	-0.12	-0.03	1.2	-1.4	-0.3
China	6.98	7.35	0.18	0.37	0.38	2.8	5.6	5.4
Other Asia	8.87	9.08	0.16	0.09	0.22	1.8	1.0	2.4
Subtotal Asia	24.31	24.87	0.44	0.34	0.57	1.9	1.4	2.3
FSU	3.95	3.99	0.05	0.15	0.03	1.3	4.0	0.8
Middle East	6.45	6.80	0.32	0.33	0.35	5.6	5.4	5.4
Africa	2.94	3.01	0.08	0.07	0.07	3.0	2.4	2.4
Latin America	5.20	5.31	0.13	0.11	0.11	2.7	2.1	2.1
World	84.49	85.93	1.19	0.91	1.43	1.4	1.1	1.7

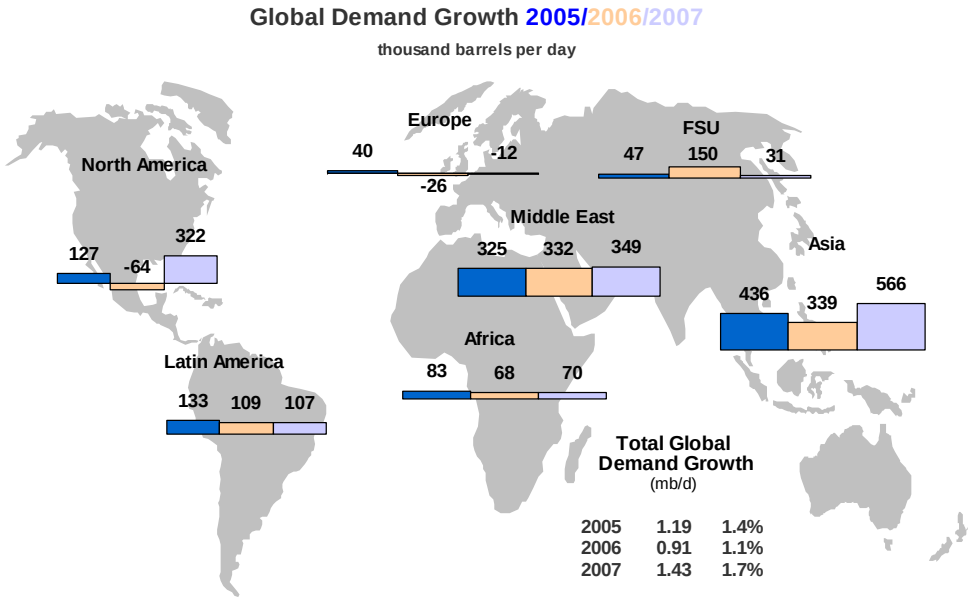
- **Non-OECD oil product demand** is also unchanged at 35.1 mb/d in 2006 (+3.3% versus 2005) and 36.3 mb/d in 2007 (+3.3%), despite a slight downward adjustment in China's oil product demand growth rate for 2006 (from 6.2% to 5.6% on an annual basis). This revision is related to the country's relatively lower apparent demand growth over the past three months, possibly largely explained by the drawdown of stocks. This could justify revising upwards 2007 Chinese demand, but we have decided to wait for new data to confirm or disprove the stock hypothesis.

Worldwide Overview

We have kept unchanged our global growth forecast for 2006 (+1.1% to 84.5 mb/d) and 2007 (+1.7% to 85.9 mb/d), as downward adjustments in OECD countries were largely offset by upward revisions in the rest of the world. Nevertheless, given adjustments to October data, 4Q06 will be slightly weaker than expected (+2.5% on an annual basis, compared with +2.6% in last month's report).

A big question mark regarding the outcome of the 2007 forecast relates to US economic growth prospects. Although most observers concur that economic activity is slowing, the jury is still out regarding its magnitude and timing, given a host of contradictory signals – e.g., upwardly revised 3Q06 growth (from a preliminary estimate of 1.6% to 2.2%, a much higher revision than the 1.8% expected by most analysts) and concerns by the Federal Reserve regarding inflationary expectations, which contrast with lower consumer confidence and falling house prices.

As such, we have decided, for the time being, to continue to base our forecast on the IMF's US GDP projection for 2007 (+2.9%, compared with an emerging current consensus of 2.5%), but we will review it if appropriate. Moreover, it can be argued that a slower US economic expansion will not necessarily translate into much lower domestic oil demand over the course of next year, since it is mostly driven by income-inelastic transportation fuels. In other words, US citizens are likely to maintain their driving and flying habits in the short term.



The oil price fall after last summer's highs encouraged the marginal substitution of hitherto cheaper natural gas by naphtha and fuel oil in the US. However, this effect has somewhat vanished following the rebound in oil prices over the past month. As a result, demand for the heavy end of the barrel has resumed its long-term downward trend, thus contributing to the OECD's relatively stagnant oil product consumption – a structural feature of this high-price era.

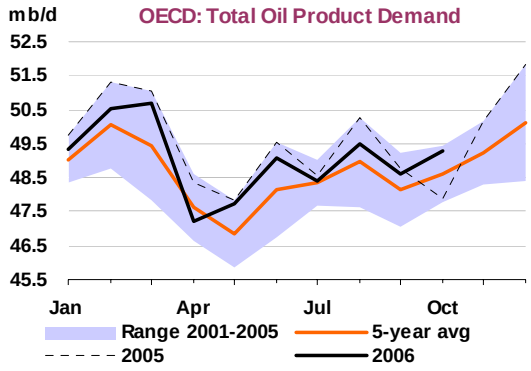
OECD

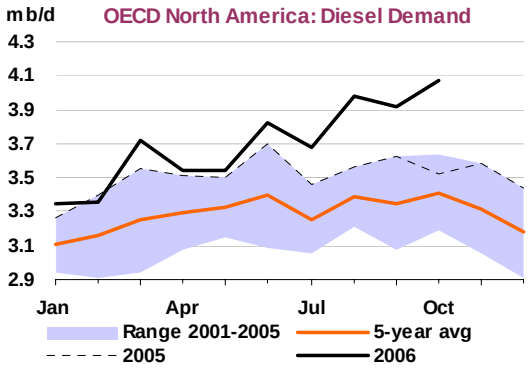
Total OECD demand growth was quite strong in October (+3.0% versus levels of a year ago), supported mostly by North America, which rebounded from last year's hurricane-depressed baseline (+3.8%) in all product categories bar residual fuel oil. More surprisingly, perhaps, growth was also strong in the Pacific (+3.5%), due to strong inland deliveries of transportation fuels (gasoline and diesel) and naphtha, and in Europe (+1.4%), where deliveries of both jet/kerosene and gasoil (diesel and heating oil) were also resilient.

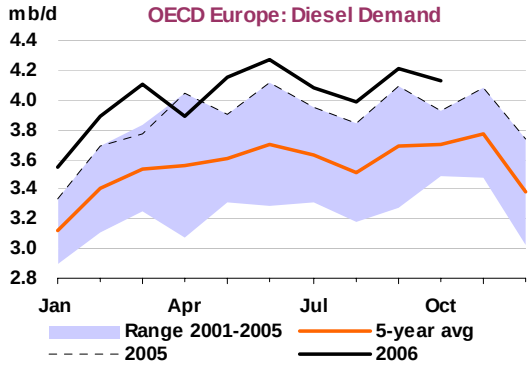
OECD Demand based on Adjusted Preliminary Submissions - October 2006
(million barrels per day)

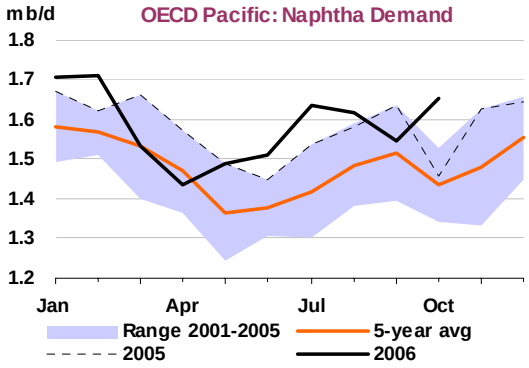
	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
OECD North America	**10.95**	**4.7**	**2.11**	**8.5**	**4.07**	**15.5**	**1.53**	**0.0**	**1.10**	**-31.0**	**6.03**	**4.10**	**25.80**	**3.8**
USA*	9.47	4.8	1.87	8.2	3.55	16.7	1.04	0.5	0.57	-42.7	4.68	5.8	21.18	4.6
Canada	0.70	0.6	0.14	15.3	0.19	8.4	0.34	-4.2	0.15	1.0	0.72	8.3	2.25	3.7
Mexico	0.69	8.1	0.06	8.9	0.26	9.7	0.11	9.7	0.26	-22.0	0.55	-12.0	1.94	-2.9
OECD Europe	**2.53**	**-0.8**	**1.33**	**7.0**	**4.13**	**5.1**	**2.33**	**7.7**	**1.67**	**-0.6**	**3.55**	**-5.3**	**15.53**	**1.4**
Germany	0.52	-3.8	0.19	2.5	0.62	3.1	0.60	9.5	0.17	-0.9	0.55	-9.6	2.66	-0.2
UK	0.41	-0.6	0.37	12.0	0.42	6.8	0.14	-5.9	0.07	-1.6	0.36	-10.9	1.78	0.5
France	0.23	-1.4	0.16	4.4	0.67	7.5	0.42	35.0	0.06	-16.9	0.46	-1.8	2.01	7.4
Italy	0.31	-2.7	0.09	5.3	0.57	7.1	0.16	-1.4	0.22	-22.5	0.34	-0.3	1.68	-1.9
Spain	0.16	-3.0	0.12	3.6	0.48	3.0	0.21	8.5	0.24	15.6	0.34	-1.8	1.54	3.8
OECD Pacific	**1.58**	**5.2**	**0.79**	**2.3**	**1.24**	**6.4**	**0.51**	**-7.9**	**0.89**	**-8.8**	**2.96**	**8.3**	**7.98**	**3.5**
Japan	1.02	4.4	0.50	0.6	0.62	3.6	0.39	-7.3	0.51	-11.8	1.80	7.8	4.84	2.1
Korea	0.17	7.3	0.17	3.3	0.29	7.3	0.11	-11.1	0.36	-5.4	0.95	12.3	2.04	5.5
Australia	0.34	8.6	0.09	10.7	0.28	10.1	0.00	29.7	0.02	-17.8	0.20	-3.0	0.94	5.8
OECD Total	**15.06**	**3.8**	**4.23**	**6.8**	**9.44**	**9.5**	**4.38**	**2.9**	**3.65**	**-13.9**	**12.54**	**2.1**	**49.30**	**3.0**

* Fifty States Only









Total OECD Demand by Product

(million barrels per day)

	2005	2006	4Q05	1Q06	2Q06	3Q06	Jul 06	Aug 06	Sep 06*	Latest month vs. Aug 06	Latest month vs. Sep 05
LPG & Ethane	4.73	4.66	4.76	5.03	4.44	4.42	4.50	4.54	4.22	-0.32	0.00
Naphtha	3.22	3.13	3.09	3.22	2.94	3.13	3.09	3.17	3.14	-0.03	0.01
Motor Gasoline	14.84	14.89	14.76	14.35	14.96	15.27	15.43	15.50	14.86	-0.64	0.24
Jet & Kerosene	4.25	4.23	4.40	4.48	3.99	3.98	3.98	3.98	3.99	0.01	-0.03
Gas/Diesel Oil	13.06	13.27	13.41	13.74	12.64	12.86	12.28	12.93	13.38	0.45	0.21
Residual Fuel Oil	4.44	4.07	4.50	4.64	3.79	3.80	3.85	3.90	3.65	-0.25	-0.71
Other Products	5.05	5.14	5.02	4.73	5.23	5.38	5.27	5.50	5.38	-0.11	0.14
Total Products	**49.60**	**49.37**	**49.96**	**50.19**	**47.99**	**48.84**	**48.39**	**49.50**	**48.62**	**-0.88**	**-0.14**

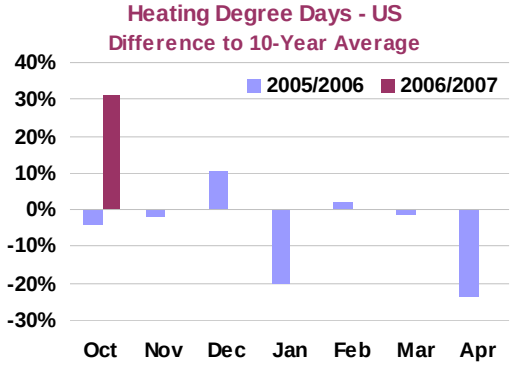
* Latest official OECD submissions (MOS)

North America

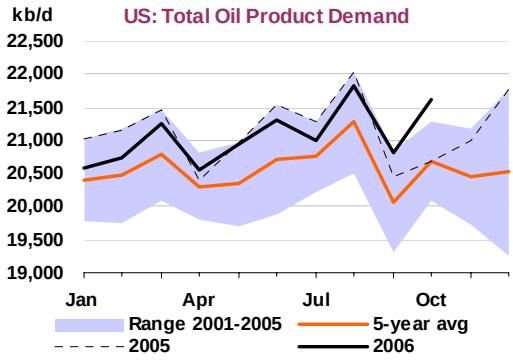
In the **United States**, preliminary October inland deliveries – a proxy of demand – of all product categories bar residual fuel rose compared with year-ago levels (LPG: 0.5%; naphtha: 9.3%; gasoline: 4.8%; jet/kerosene: 8.2%; diesel: 16.7%; heating oil: 0.5%; other products: 9.1%,). These products largely offset significantly lower deliveries of fuel oil (-42.7%). Overall, total US petroleum deliveries rose by 4.6% versus October 2005. Revisions, meanwhile, stood at -190 kb/d in September, mostly because of downward adjustments in diesel and heating oil, and upward changes in naphtha and jet/kerosene.

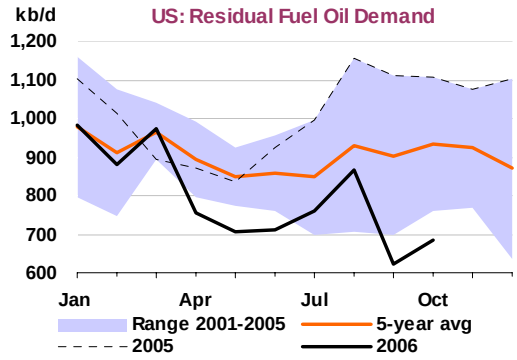
October's strong growth in inland deliveries is related to last year's hurricane-stricken base. In addition, lower transportation fuel retail prices – which continued to fall for the second month in row – also played a role in sustaining demand. Indeed, October's average gasoline pump price, at $2.25/gallon, was the lowest observed since December 2005. The dramatic rise of diesel deliveries was related both to last year's depressed demand, the retail introduction of ultra-low sulphur diesel (ULSD) in mid-October, lower prices ($2.52/gallon on average) and resilient freight shipments. The fall in prices, combined with the economic, geographical and social structure of the US (which encourages people to drive more than in other OECD countries), and its demographics (the population recently passed the 300-million mark), will thus continue to support strong growth in transportation fuels demand.

The weakness of heating oil deliveries ran counter to weather conditions. October was colder-than-normal: the number of 'heating-degree days' or HDDs was some 30% higher than the past ten-year average (our US temperature model is based on average daily data from 200 weather stations across the country, weighted by population and compiled by the US National Climatic Data Center). The difference was arguably met by consumer stocks. Moreover, given milder conditions in November, heating oil demand is expected to remain subdued. The fall of residual fuel oil deliveries, meanwhile, is more likely related to the increased availability of natural gas and, to a lesser extent, to emission considerations. Demand for fuel oil as a whole will likely resume its slow decline, even though demand may be briefly supported by the forthcoming winter.



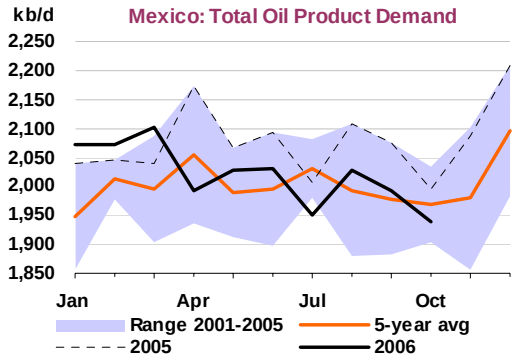
Fuel oil with 1% sulphur content is increasingly being phased out in favour of lower-sulphur grades (0.5% and 0.7%) as a result of tightened environmental regulations, especially in the northeast. It has been reported that 1% sulphur fuel oil is being blended with 3% sulphur for use as bunkers (international specifications mandate no more than 4.5% sulphur in ships). However, it appears that even as a bunker blend, the US 1% sulphur fuel oil is unpopular, since it contains metal impurities (vanadium and aluminium) that can harm engines.





Mexico posted a large downward adjustment in October (-115 kb/d), due to much lower than expected deliveries of LPG, gasoline and residual fuel oil. Overall, given two weak quarters (2Q and 3Q) demand is forecast to decline slightly in 2006 (-1.6%) to 2.0 mb/d.

In late November, a new biofuels bill that would mandate Pemex to substitute ethanol for MTBE in gasoline and promote the use of biodiesel (following a similar US policy this year) foundered in Congress, as legislative activity came to a halt amid infighting between opponents and supporters of President-elect Felipe Calderón. Although calm has returned (after the new President was sworn in on 1 December), it is unclear when – or whether – the bill, which was passed by the Senate last April, will be submitted to the Lower Chamber.



The widespread adoption of biofuels in Mexico – more specifically, of sugarcane ethanol – could potentially bring a number of benefits aside from lower emissions, but requires either subsidising or reforming the country's sugar industry to make it competitive. Proponents argue that a nascent ethanol industry could allow the country to lower its gasoline import bill, promote investment and job creation in poor areas, and curb migration from the countryside to both domestic urban areas and to the United States.

Seeking to tackle the country's ballooning oil product import bill (see *OMR* dated 10 November 2006), the Mexican government increased gasoline and diesel prices by 4.2% and 3.3%, respectively. There are concerns that the diesel price increase may stoke inflation, since the freight and

transportation industry depends overwhelmingly on this type of fuel. The impact of the gasoline price rise, by contrast, is likely to be more muted, since it only affects the so-called 'Premium' type, generally only used by new and more expensive cars – a market that is relatively small and geared towards the more affluent social sectors.

OECD North America Demand by Product
(million barrels per day)

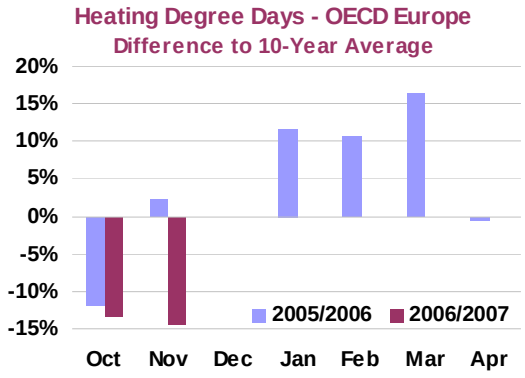
	2005	2006	4Q05	1Q06	2Q06	3Q06	Jul 06	Aug 06	Sep 06*	Latest month vs. Aug 06	Latest month vs. Sep 05
LPG & Ethane	2.81	2.79	2.81	2.98	2.65	2.71	2.67	2.79	2.66	-0.13	0.28
Naphtha	0.46	0.40	0.31	0.37	0.41	0.45	0.39	0.46	0.51	0.05	0.18
Motor Gasoline	10.59	10.74	10.60	10.35	10.80	11.00	11.11	11.17	10.70	-0.48	0.37
Jet & Kerosene	1.97	1.95	1.99	1.87	1.95	1.94	1.97	1.91	1.94	0.03	-0.01
Gas/Diesel Oil	5.09	5.24	5.15	5.35	5.01	5.07	4.83	5.26	5.11	-0.15	0.03
Residual Fuel Oil	1.56	1.25	1.63	1.43	1.15	1.18	1.19	1.30	1.06	-0.24	-0.57
Other Products	3.01	3.07	2.99	2.78	3.14	3.19	3.05	3.35	3.18	-0.17	0.21
Total Products	**25.50**	**25.44**	**25.48**	**25.12**	**25.09**	**25.54**	**25.20**	**26.25**	**25.15**	**-1.10**	**0.49**

* Latest official OECD submissions (MOS)

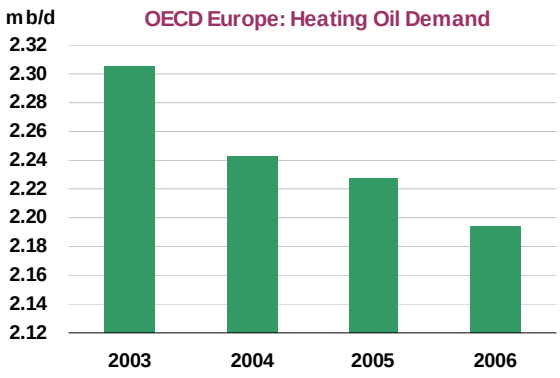
Europe

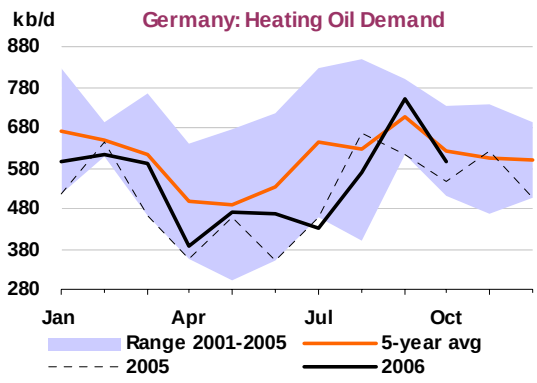
According to preliminary estimates of October's inland deliveries, oil product demand in Europe rose by a robust +1.4% compared with the same month in 2005, pulled up by strong demand for jet/kerosene (+7.0%), diesel (+5.1%) and heating oil (+7.7%).

The fact that heating oil deliveries were high despite a milder-than-normal weather may seem surprising. The number of HDDs in October was almost 15% lower than the past ten-year average (our European temperature model is based on average daily data from 80 cities across the continent, weighted by population and compiled by the US National Climatic Data Center). However, most of these deliveries have arguably been stored ahead of the colder winter months (in the case of Germany, stocking was also prompted by the expectation of higher prices from next January as a result of an announced VAT increase). Therefore, the observed heating oil deliveries do not represent actual, but rather future, demand. As such, heating oil demand in early 2007 will probably be quite weak. Thus, depending on how prices evolve over the next few weeks, we may revise our assessment of next year's European heating oil consumption.

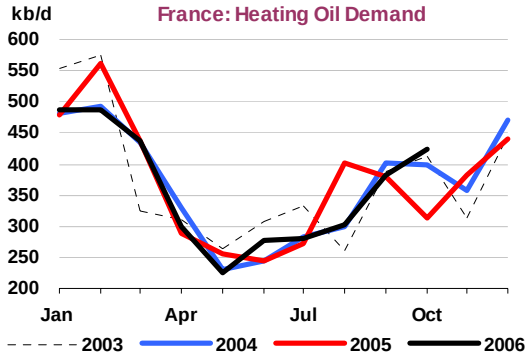


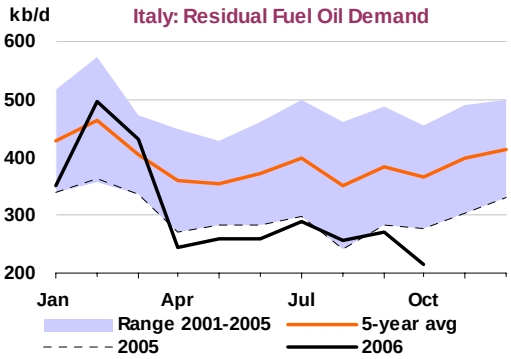
Germany's September heating oil demand figures were sharply revised upwards (+112 kb/d), indicating that household tank-filling ahead of winter, which began in August, was much stronger than earlier anticipated (+21.9% on a yearly basis). Moreover, the filling pace remained strong in October (+9.5% compared with levels of a year ago).





In **France**, deliveries of heating oil also gathered considerable speed (+35.0% compared with October 2005). Although French heating oil stock data are not available, this jump is arguably explained by the fact that in 2005 French consumers began building winter stocks much earlier (in August). This year, consumers may have felt that prices were unlikely to fall further and that the time was ripe to store the fuel.





In **Italy**, meanwhile, residual fuel oil's weak deliveries (-22.5% on an annual basis) are related to both mild weather and high hydropower supplies, which together dampened demand for conventional electricity (generated by fuel-powered stations).

OECD Europe Demand by Product
(million barrels per day)

	2005	2006	4Q05	1Q06	2Q06	3Q06	Jul 06	Aug 06	Sep 06*	Latest month vs. Aug 06	Latest month vs. Sep 05
LPG & Ethane	1.03	0.98	1.07	1.13	0.96	0.84	0.92	0.84	0.75	-0.09	-0.22
Naphtha	1.18	1.12	1.21	1.20	1.05	1.08	1.07	1.09	1.08	-0.01	-0.08
Motor Gasoline	2.64	2.55	2.56	2.44	2.61	2.64	2.67	2.63	2.60	-0.03	-0.09
Jet & Kerosene	1.24	1.28	1.23	1.19	1.28	1.37	1.33	1.41	1.38	-0.03	0.03
Gas/Diesel Oil	6.10	6.22	6.35	6.46	5.85	6.10	5.79	5.95	6.57	0.62	0.27
Residual Fuel Oil	1.84	1.82	1.81	2.06	1.70	1.71	1.76	1.70	1.67	-0.03	-0.09
Other Products	1.49	1.51	1.47	1.29	1.59	1.67	1.70	1.60	1.72	0.11	0.02
Total Products	**15.51**	**15.47**	**15.69**	**15.77**	**15.03**	**15.40**	**15.24**	**15.23**	**15.76**	**0.54**	**-0.16**

* Latest official OECD submissions (MOS)

Pacific

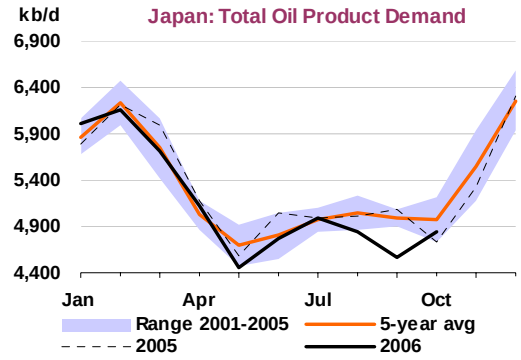
According to October's preliminary data, oil product demand in **Japan** rebounded by a strong +2.1% compared with October 2005 – the highest pace since January 2006, which had marked the beginning of an anaemic growth period (in fact, demand plummeted by 10.1% year-on-year in September). Growth was mostly fed by naphtha (+5.4% year-on-year), gasoline (+4.4%) and diesel (+3.6%). It remains to be seen, however, whether this rebound will be sustained and/or confirmed once definitive figures are made available.

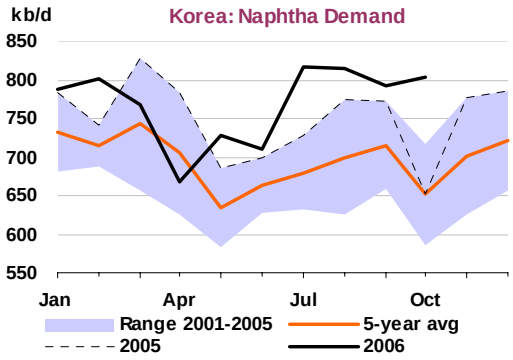
Naphtha demand in **Korea** rebounded strongly in October (+23.1%, compared with the same month in the previous year), following the end of the petrochemical maintenance season (usually September-October). Combined with strong growth in transportation fuels, robust naphtha demand helped push up the country's total oil product demand by 5.5% on a yearly basis – the fastest pace in the year to date.

OECD Pacific Demand by Product
(million barrels per day)

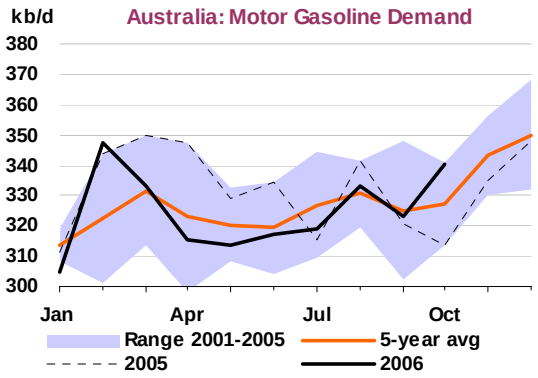
	2005	2006	4Q05	1Q06	2Q06	3Q06	Jul 06	Aug 06	Sep 06*	Latest month vs. Aug 06	Latest month vs. Sep 05
LPG & Ethane	0.89	0.88	0.88	0.92	0.84	0.87	0.90	0.90	0.81	-0.09	-0.05
Naphtha	1.58	1.60	1.58	1.65	1.48	1.60	1.63	1.62	1.55	-0.07	-0.08
Motor Gasoline	1.61	1.60	1.61	1.57	1.56	1.63	1.65	1.69	1.56	-0.13	-0.04
Jet & Kerosene	1.04	1.00	1.19	1.42	0.75	0.67	0.69	0.66	0.67	0.02	-0.06
Gas/Diesel Oil	1.87	1.82	1.91	1.92	1.79	1.69	1.66	1.71	1.70	-0.01	-0.09
Residual Fuel Oil	1.05	1.00	1.07	1.16	0.95	0.91	0.90	0.89	0.93	0.03	-0.05
Other Products	0.55	0.56	0.55	0.67	0.50	0.52	0.53	0.55	0.49	-0.05	-0.10
Total Products	**8.59**	**8.47**	**8.79**	**9.30**	**7.87**	**7.90**	**7.96**	**8.02**	**7.71**	**-0.31**	**-0.48**

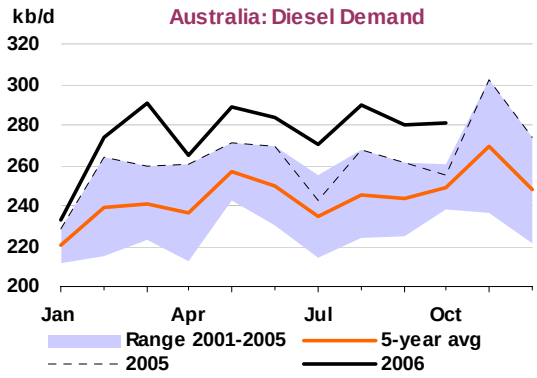
* Latest official OECD submissions (MOS)





Sales of unleaded gasoline blended with 10% ethanol began in early December in eastern **Australia**. Current production stands at some 30 million litres per year, equivalent to approximately 0.1% of total gasoline consumption. The marketing of E10 (initially started by Shell, to be followed by Caltex and BP) should eventually rise to some 350 million litres per year by 2010, according to the government – however, that would be equivalent to less than 2% of total gasoline demand.





Non-OECD

China

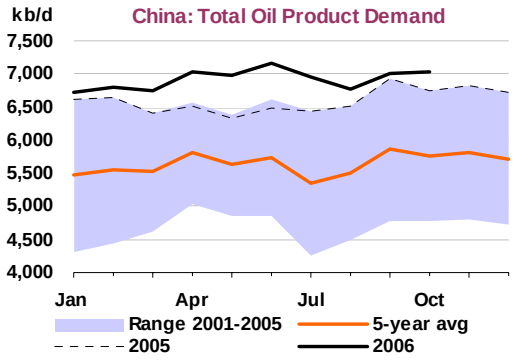
China's apparent oil product demand figures were sharply revised downwards for both September (-170 kb/d) and October (-284 kb/d), highlighting once again the intrinsic difficulties in estimating Chinese apparent consumption (defined in this report as refinery output plus net oil product imports, adjusted for fuel oil and direct crude burning, smuggling, and stock changes). September's apparent demand was thus much weaker than previously estimated (it grew by 0.8% on an annual basis, instead of the previous 3.2%). Moreover, preliminary October data indicate that apparent demand grew by a relatively modest annual rate of 4%. Demand was mostly driven by naphtha (+5.8%), jet/kerosene (+23.8%, reflecting strong travel in the Golden holiday weekend) and gasoil (+6.1%).

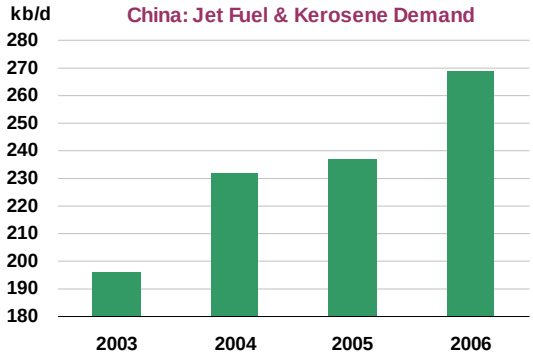
The fact that, for the past three months, demand appears subdued suggests that China may be drawing commercial stocks, since there is no evidence that the underlying structural support of Chinese consumption – economic growth – is losing steam. While there have been some comments from government officials regarding the need to curb investment, such a policy would take some time to work and would likely be suspended if US demand for Chinese goods were to slow down significantly. In addition, domestic retail prices remain relatively insulated from global pressures.

Although both net crude and oil product imports fell sharply in October to some 2.4 mb/d and 0.6 mb/d, respectively, refining output from Sinopec and PetroChina (which represent approximately 90% of total output) hit a high of about 5.7 mb/d in October, while apparent demand rose to some 7.0 mb/d, the highest level in the year to date (bar June).

Local sources note that October's sharp fall in net fuel oil imports (to some 360 kb/d from about 520 kb/d in September) was due to stock draws in the Huangpu market, which includes several major terminals (Yuehai Xiaohudao, BP Nansha, Guishan, Jinming and Nanhua). Meanwhile, weaker LPG

net imports (130 kb/d versus 150 kb/d the previous month) were attributed to the fuel's high price, substitution by LNG in Guangdong province and the coming on stream of Sinopec's Hainan Yangpu refinery.





Overall, we have adjusted downwards our annual growth forecast of Chinese apparent demand for 2006 (+5.6%). Regarding 2007, we have kept unchanged thus far our assessment of China's oil demand (+5.4%); however, if new data and/or future revisions confirm the stock hypothesis, we may revise our forecast.

China Demand by Product
(thousand barrels per day)

	Demand			Annual Change		Annual Change (%)	
	2005	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
LPG & Ethane	637	614	626	-23	12	-3.6	1.9
Naphtha	772	874	927	102	54	13.2	6.1
Motor Gasoline	1088	1153	1233	66	80	6.1	6.9
Jet & Kerosene	237	268	281	31	12	13.2	4.6
Gas/Diesel Oil	2122	2216	2380	94	164	4.4	7.4
Residual Fuel Oil	785	811	820	26	8	3.4	1.0
Other Products	963	1039	1087	76	48	7.9	4.6
Total Products	**6602**	**6975**	**7353**	**373**	**378**	**5.6**	**5.4**

On 1 November, China's Ministry of Finance began levying for the first time a 5% tariff on crude oil exports and a lower tariff on oil product imports (2% on average, instead of 6%, for gasoline, gasoil and jet fuel). The official line is that these tax changes will shift import patterns toward less energy-intensive products and contribute to saving energy domestically, reducing environmental pollution and avoiding future product shortages. However, the new measures are arguably essentially geared to increase domestic crude supply and help alleviate the financial burden of state-owned companies, which have been importing oil products at a loss (given domestic and international price differentials) – i.e., China Aviation Oil (CAOHC) with respect to jet fuel and Sinopec and PetroChina with regards to gasoil. Note that an additional regulation, also implemented in November, bans third-party distillate imports, thus further entrenching the position of the national companies.

China Crude & Product Trade
(thousand barrels per day)

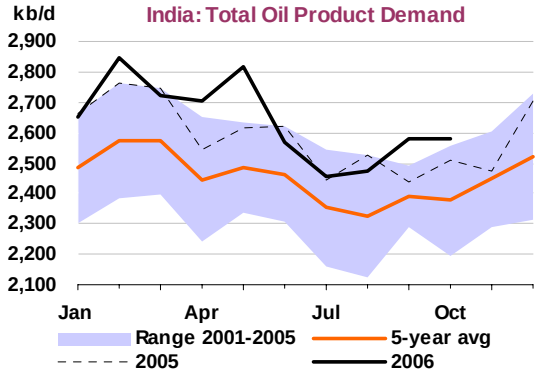
	2004	2005	4Q2005	1Q2006	2Q2006	3Q2006	Aug 06	Sep 06	Oct 06	Latest month vs. Sep 06	Latest month vs. Oct 05
Net Imports/(Exports) of:											
Crude Oil	2346	2387	2407	2878	2821	2757	2618	3253	2363	-891	-212
Products & Feedstocks	660	479	599	512	765	707	695	709	567	-142	-41
Gasoil/Diesel	43	-19	-3	-10	-14	-6	-12	5	6	1	11
Gasoline	-125	-130	-55	-107	-56	-63	-86	-51	-86	-35	-43
Heavy Fuel Oil	506	418	402	406	522	575	578	519	357	-162	-22
LPG	201	194	182	146	227	125	111	153	134	-19	-45
Naphtha	-33	-35	1	-15	-36	-31	-37	-32	9	41	10
Jet & Kerosene	16	11	30	43	33	43	70	65	79	15	39
Other	51	40	42	49	90	65	71	51	66	16	10
Total	3007	2866	3006	3390	3586	3464	3313	3962	2930	-1033	-253

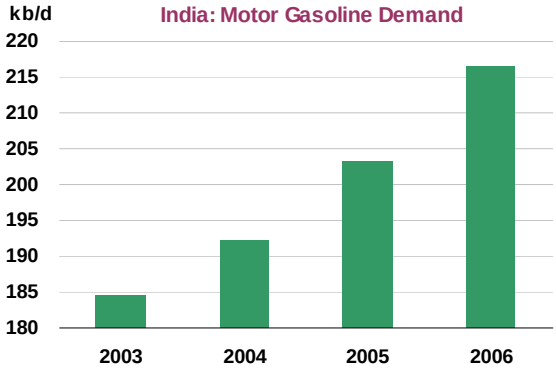
Sources: China Oil, Gas and Petrochemicals plus IEA estimates.

China became a full member of the WTO on 11 December. As a result, the country is obliged in principle to open its crude and oil product wholesale markets to competition (with the exception of fuel oil, which was already freely traded). To that effect, on 6 December the Ministry of Commerce issued a set of new regulations – the so-called 'rules of crude market management', to be implemented on 1 January 2007. As in many countries, though, China's existing and new regulations are likely to favour incumbents, and newcomers will probably find that joint-ventures with state-owned companies are the easiest route to enter the market. Therefore, change will arguably be slow in the Chinese domestic oil market, where Sinopec and PetroChina account for 90% of total imports (three other firms – Unipec, Zhuhai Zhenrong and CNOOC – account for the remaining 10%).

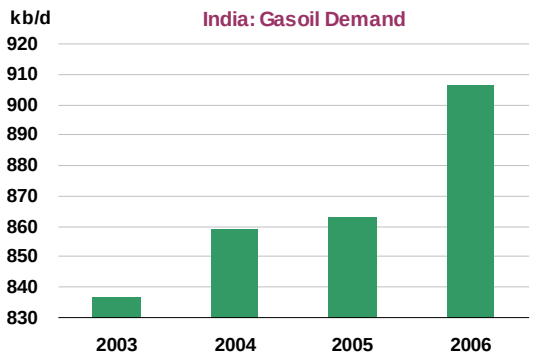
Other Non-OECD

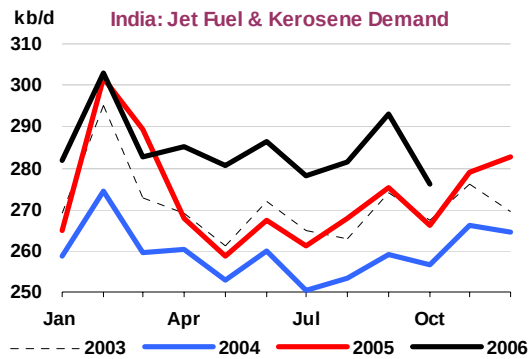
According to preliminary data, **India's** oil product demand rose by some 2.8% year-on-year in October, pulled by strong gains in transportation fuels (gasoline sales rose by 10.7%, jet/kerosene by 3.8% and gasoil by 7.4%). More unexpectedly, naphtha sales, which have been structurally depressed by India's gradual adoption of natural gas, rose by 0.1%, in part because of marginal power generation requirements. Still, naphtha demand is expected to decline by almost 6.0% in 2006, since India's two state-owned naphtha-fired power stations (NTPC's 350-MW Kerala and 740-MW Maharashtra) account for only 4.1% of the country's total installed capacity (26.4 GW, of which 21.3 GW are coal-fired). Total product demand, meanwhile, is forecast to rise by a modest 2.2% in 2006, compared with 2005 levels.





In late November, the government cut retail transportation prices – gasoline prices fell by 4.3% and diesel prices by 3.0%. The move, which partly reverses last June's price hikes (when gasoline rose by 9.2% and diesel 6.6%), was presented as a natural consequence of the fall in international crude prices, but is probably more closely related to political considerations (a string of elections is due in early 2007). However, the decision will probably have little effect on the finances of refiners and retailers, since domestic fuel retail prices are still low by international standards. India's retailing market includes three large state-owned companies – Indian Oil Corporation (IOC), Bharat Petroleum Corporation Ltd (BPCL) and Hindustan Petroleum Corporation Ltd (HPCL) – and several private companies – Shell, Reliance and Essar. Only state-owned companies are subsidised by the government through bond issuance; private firms, by contrast, are forced to absorb retailing losses (some companies, such as Reliance, have unsuccessfully lobbied the government for support). As a result, the latter have scaled back their operations, notably by putting on hold – or at least reducing – their retail expansion plans (i.e., the commissioning of new service stations).

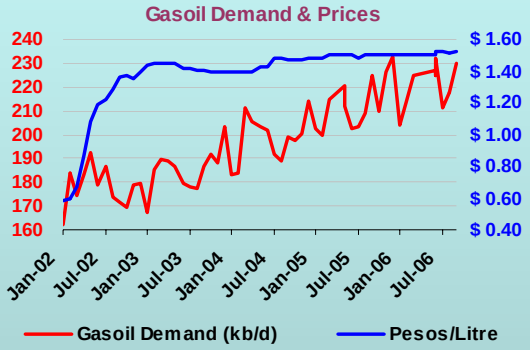


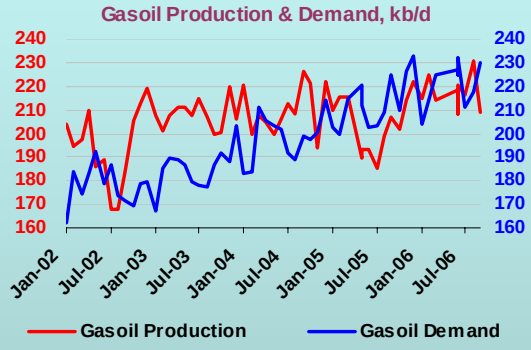


Argentina's Gasoil Conundrum

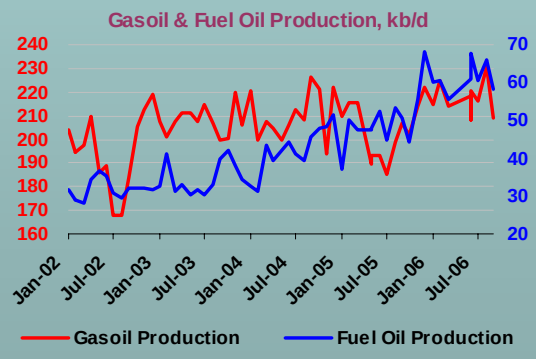
In early December, the Argentine government took the unprecedented step of fining one of the country's main retailers – Shell – for allegedly failing to supply the market with enough gasoil. The $7.5 million fine was supported by an old emergency law (the 1974 Supply Law), which forces companies to meet demand in key markets – in this case, the gasoil market. The move is the latest chapter of an increasingly confrontational relationship between the government and private companies.

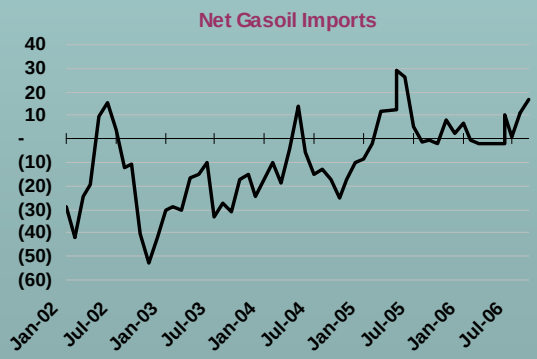
The core of the problem is the government's reluctance to allow domestic retail prices to rise, in order to curb an already high inflation rate (currently running at some 10% on an annual basis). Following the country's economic meltdown of 2002, triggered by a sharp devaluation and a debt default, the government and private companies had tacitly agreed to more or less freeze retail fuel prices to foster a recovery. The economy indeed rebounded strongly (GDP has been growing by about 9% annually over the past three years). The combination of strong economic growth and low prices boosted oil product demand, notably of gasoil. Total gasoil demand (including bunkers and refinery and petrochemical feedstocks) jumped from almost 170 kb/d in January 2003 to about 230 kb/d in September 2006 – a 35% increase. By contrast, gasoil prices barely budged over the same period, rising by less than 6% in nominal terms (and hence actually falling in real terms).





Meanwhile, however, international crude prices rose sharply. Unsurprisingly, both refiners and retailers have shown a growing lack of enthusiasm to keep up with demand, having gradually seen their profits not only vanish but become negative (Argentine retail prices are currently some 40-50% below international levels). On the one hand, downstream players have reduced gasoil production, thus boosting fuel oil output (which is exported at international prices or sold to domestic utilities). On the other, they have tried to export gasoil or at least minimise imports (the government, though, recently imposed both an export tax and an export pre-approval rule).





Arguably, the end result was unavoidable: in September and October Argentina faced gasoil shortages for several days in some areas – an unwelcome occurrence as the country was readying itself for the start of the soy planting season, which is one of the most important agricultural crops. Looking ahead, the Argentine government faces difficult choices: escalate the conflict with private companies, heavily subsidize imports, or let the market work by lifting price caps – and risk an unpopular rise in inflation or, worse, an economic slowdown.

SUPPLY

Summary

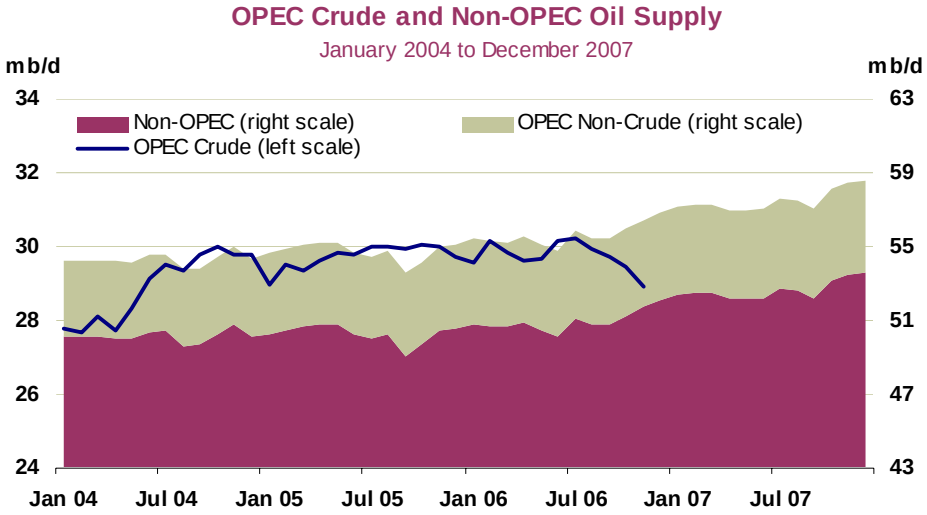
- **World oil supply** slipped by 50 kb/d in November to 85.4 mb/d, with lower OPEC crude supply outstripping an OECD-inspired rise from non-OPEC. August and September production estimates are revised down by close to 90 kb/d, based on a lower baseline for non-OPEC Africa and the North Sea. October supply is revised up by 120 kb/d on the strength of higher FSU and OPEC crude availability. A yearly comparison shows 3Q06 global output 1.3 mb/d above disrupted year-ago levels.

- **Non-OPEC supply** estimates are revised down by 40 kb/d for 2006 and by 115 kb/d for 2007. Next year's adjustments are focused in the 1Q-3Q period, when Australia, Russia, Brazil, Sudan, Egypt and Mauritania now appear headed for lower than previously expected output. A partial offset comes from higher expectations for North America and China. All told, non-OPEC supply rises by 650 kb/d in 2006 (constrained by weak 2Q performance) and a potential 1.7 mb/d in 2007, reaching 52.6 mb/d. OPEC NGL supply growth remains unchanged at 0.2 mb/d both years, averaging 4.7 mb/d and 4.9 mb/d respectively for 2006 and 2007.

- **Total OPEC crude supply** fell by 555 kb/d in November after a 225 kb/d reduction in October. November supply averaged 28.9 mb/d, with substantial reductions from Saudi Arabia, the UAE, Venezuela and Iran, albeit the latter two were pertly connected to facility maintenance. There were ongoing disruptions to supply from Iraq and Nigeria.

- **OPEC-10 (excluding Iraq) output** fell 500 kb/d in November to 27.1 mb/d. In all, OPEC-10 production is running 610 kb/d below September, versus a cut of 1.2 mb/d pledged at the October OPEC meeting. Notional spare capacity reached 3.8 mb/d, but this report's measure of effective spare capacity (excluding Iraq, Nigeria, Venezuela and Indonesia) rose only modestly to 2.4 mb/d.

- **The 'call on OPEC crude and stock change'** is revised up by 0.1 mb/d for 2007 to 28.4 mb/d, based on now-lower expectations for non-OPEC supply in the first three quarters of the year. The current quarter's call stands at 29.8 mb/d, nearly 1 mb/d above prevailing OPEC supply, suggesting the potential for a substantial 4Q stock draw unless winter weather proves markedly milder than normal. Similarly, the 1Q07 call stands marginally above recent OPEC output, at 29.0 mb/d.



All world oil supply figures for November discussed in this report are IEA estimates. Estimates for OPEC countries, Alaska 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 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 for November came in 555 kb/d below October levels and averaged 28.9 mb/d, its lowest in almost two years. October levels themselves were revised up by 110 kb/d to 29.5 mb/d on evidence of higher output from Iran, the UAE, Iraq and Saudi Arabia. Cuts in November were centred on Saudi Arabia (165 kb/d), Venezuela (105 kb/d), UAE (75 kb/d), Iran (70 kb/d) and Iraq (55 kb/d). However, facility maintenance and unplanned disruptions respectively account for much of the reduction from Iran/Venezuela and Iraq.

Both Iraq and Nigeria saw renewed rebel attacks on oil facilities, with the two countries facing more than 1.0 mb/d of combined production shut-in for security reasons. Nominal OPEC spare capacity reached 3.8 mb/d. However, given the physical constraints impeding the above two producers, and a perceived downward drift in Indonesian and Venezuelan supply potential, effective spare capacity may be closer to 2.4 mb/d. As noted in previous months, we do not adjust capacity estimates for perceived marketability problems which may, at certain points in time, further limit the ability of OPEC to bring 'spare oil' to market. Refining capability changes over time, and most barrels can be sold, at the right price.

OPEC Crude Production
(million barrels per day)

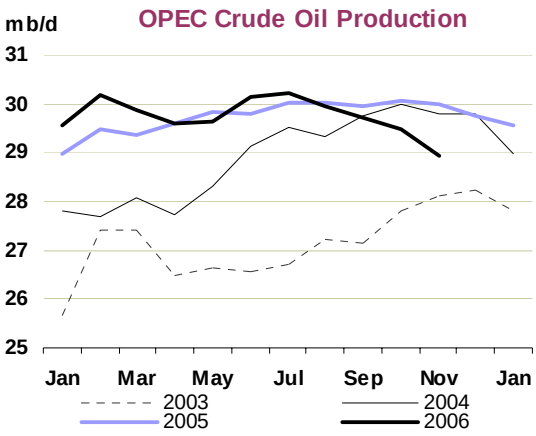
	1 July 2005 Target[1]	November 2006 Production	Sustainable Production Capacity[2]	Spare Capacity vs Nov 2006 Production	Production vs. Target
Algeria	0.89	1.34	1.39	0.05	0.45
Indonesia	1.45	0.86	0.95	0.09	-0.59
Iran	4.11	3.73	3.90	0.17	-0.38
Kuwait[3]	2.25	2.49	2.60	0.11	0.24
Libya	1.50	1.73	1.75	0.02	0.23
Nigeria	2.31	2.20	2.60	0.40	-0.11
Qatar	0.73	0.80	0.85	0.05	0.07
Saudi Arabia[3]	9.10	8.90	10.80	1.90	-0.20
UAE	2.44	2.59	2.70	0.11	0.15
Venezuela[4]	3.22	2.41	2.70	0.29	-0.81
Subtotal	**28.00**	**27.05**	**30.24**	**3.19**	**-0.95**
Iraq		1.88	2.50	0.62	
Total		**28.93**	**32.74**	**3.81**	
(excluding Iraq, Nigeria, Venezuela., Indonesia				*2.41)*	

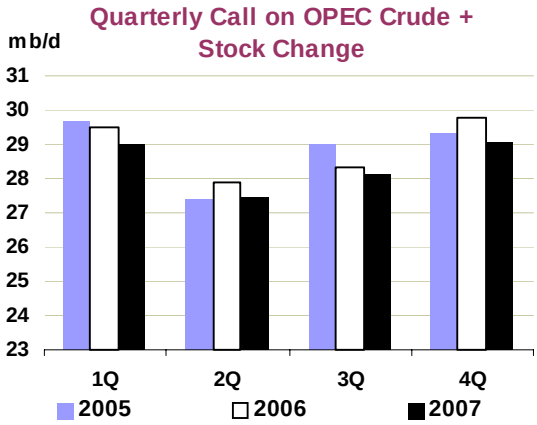
1 Target production levels superseded by decision to cut output by 1.2 mb/d from 1 November 2006
2 Capacity levels can be reached within 30 days and sustained for 90 days
3 Includes half of Neutral Zone Production
4 Includes Orinoco extra-heavy oil assumed at 481 kb/d in November

OPEC Ministers are due to meet in Abuja, Nigeria on 14 December to examine market fundamentals and review compliance with an earlier agreement to curb supplies. The organisation on 20 October announced a plan to remove 1.2 mb/d of crude from the market from 1 November, and set an aggregate target for the OPEC-10 (excluding Iraq) of 26.3 mb/d, gauged against September output. Against this benchmark, we estimate actual OPEC-10 cuts of 500 kb/d materialised in November, following on from an observed reduction of 110 kb/d in October.

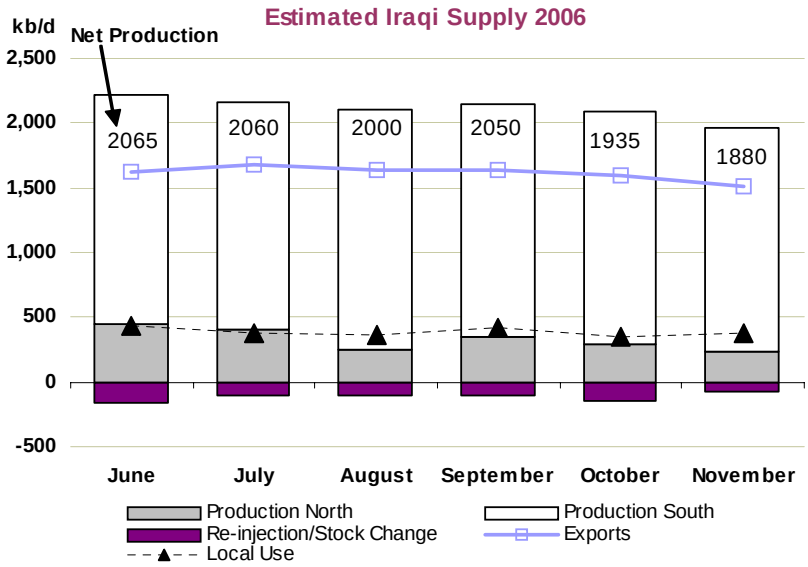
Some OPEC ministers in the past month have cited what they view as an excessive OECD stock over-hang, allied to a depreciating dollar and weakening economic prospects, as being cause for agreeing further production cuts in Abuja. However, inventories have tightened in October and November. And other members have pointed to high prices, the perennial uncertainty over northern hemisphere winter weather and incomplete compliance with the existing curbs as reason to defer any further formal action into the first quarter of 2007. Saudi Arabia has clearly stated that it wishes to avoid

shouldering a swing producer role on its own. The tentative nature of supply curbs so far suggests that compliance with the existing target might have to increase before agreement can be reached on a further official reduction. However, the announcement of further official curbs cannot be discounted, in as much as this might provide a psychological prop to market sentiment, while signalling an intention to improve compliance with the first 1.2 mb/d cut.





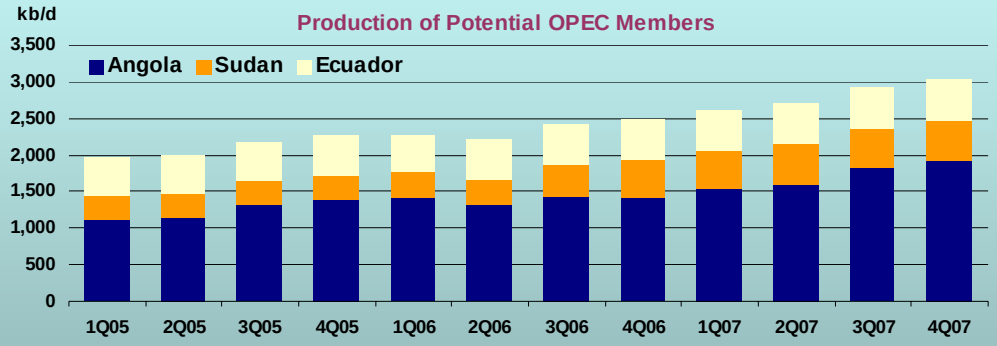
Iraqi November crude supply (net of field reinjection and deliveries into storage) fell to an eight-month low at less than 1.9 mb/d, comprising 1.5 mb/d of exports and 375 kb/d of domestic crude use by refineries and power stations. On a positive note, test loadings recommenced from the Khor al Amaya export terminal in late November for the first time since June, exports by pipeline from Kirkuk to Ceyhan restarted around 19 November and progress continued towards initial 2007 production from new fields in the Kurdish-controlled north. However, the oil sector remains chronically prone to disruption, as became clear following mortar attacks on facilities around the Kirkuk oilfield and Baiji refinery which led to a temporary shut-in of northern oilfield production from late November. It was also reported that earlier plans to reinstate crude exports by truck to Jordan are on hold as security en route cannot be guaranteed.



Pipeline deliveries of crude to Ceyhan in Turkey are thought to have averaged some 35 kb/d, taking oil in storage above 3 million barrels. Higher storage than this has tended to be a prerequisite for the authorities to release export tenders for crude at Ceyhan. Preliminary, albeit incomplete, export schedules for December suggest exports could dip further, below 1.3 mb/d. The Basrah terminal is also scheduled for a five-day closure for the reinstallation of metering equipment. Taken together with seasonal weather delays, which played a role in limiting November loadings, December is unlikely to see higher exports in the absence of a new Ceyhan tender.

Potential New OPEC Members

Reports emerged in late-November that three significant non-OPEC producers are considering joining OPEC. The **Angolan** government has approved a decision to apply to join the cartel, and OPEC sources indicate that if a full application is received in time, it could be discussed at the 14 December Abuja meeting. There is speculation that this could result in Angolan membership becoming effective as early as March 2007. Proposals for **Sudan** and **Ecuador** to join the producer group are less advanced. Sudan's president is reportedly studying a plan for his country to join after OPEC's president suggested in June that an invitation was at a consultative stage. And Ecuador's incoming president has cited plans to take the country back in to an organisation it left in 1992.



For OPEC this holds out the prospect of an immediate 2.5 mb/d increase in its market share, with likely end-decade production from the three reaching over 3.5 mb/d. Proven reserves of 20 billion barrels may seem marginal in comparison to the existing OPEC resource base, but an attractive increment when question marks hang over future production potential, not least from Iran, Iraq, Nigeria and Venezuela. On the downside, future attempts to reinstate individual production quotas might become more complicated with 14 members. For the applicant countries, the attraction of joining OPEC seems overwhelmingly political, with the kudos afforded by joining the 'big league' of producers. But the potential for OPEC production management policies to disrupt future foreign company investment flows should be a concern for host governments and the broader market alike.

Some 580 kb/d of **Nigerian** supply remained shut-in due to rebel activity in November, as production recovery at Bonny facilities was countered by renewed attacks on ENI's Brass River and offshore Okono facilities. In all, Nigerian November supply is assessed down by 35 kb/d from October, at 2.2 mb/d. Refinery operations remain severely constrained, with only 35% of the country's 450 kb/d refinery capacity operating. ENI restarted production from the onshore Tebidaba facilities later in November, and resumed normal operations from the Okono FPSO around 11 December.

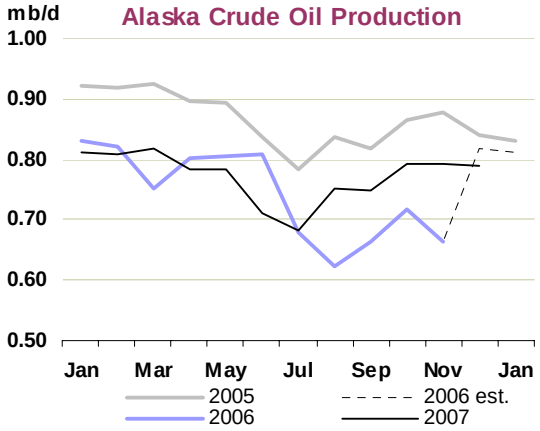
Against a backdrop of intensifying, if fragmented, political unrest leading up to next April's presidential elections, December and January crude export loadings appear likely to remain constrained. However, operator Shell did state in late November that it was preparing to send inspection teams to its shuttered Forcados and EA production facilities in the western Niger Delta. The company suggested that in the absence of renewed attacks or signs of serious damage, up to 50% of its 475 kb/d of shuttered production could be reinstated weeks after inspections are completed, although full recovery could take four to six months.

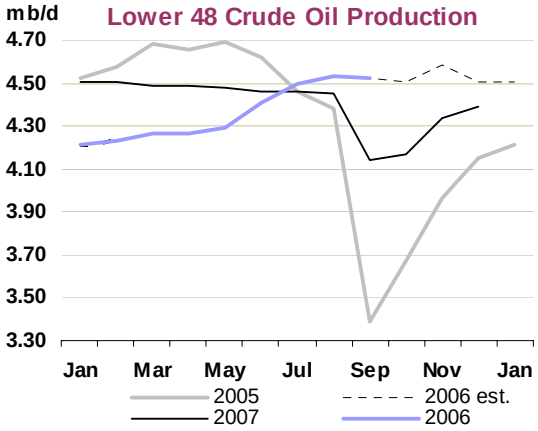
In **Venezuela,** November supply was cut by an estimated 105 kb/d with maintenance at the Sincor heavy crude upgrader unit running through from late October to mid-November. The Venezuelan authorities had stated in early November that the country's pledge to curb supply by 138 kb/d would be met entirely by restrictions on output at the four joint venture upgrader projects, which account for some 630 kb/d of Venezuelan supply. However, given ongoing negotiations on the contractual status of these projects, there was some market uncertainty on the extent or duration of supply cuts from these facilities.

OECD

North America

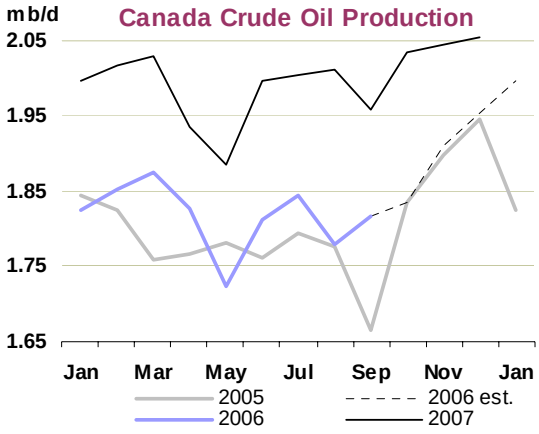
US – Alaska November actual, others estimated: US oil supply in November averaged a preliminary 7.57 mb/d, 65 kb/d up from October. Crude comprised 5.25 mb/d of the total, with NGL at 1.8 mb/d and other hydrocarbons and oxygenates at 0.5 mb/d. In total, US oil supply is revised up by 120 kb/d for the current quarter, following substantial upward revision to September baseline data, particularly for NGL and Lower-48 crude production. GOM supply has also been revised up for 4Q by 125 kb/d, to 1.52 mb/d, after the passing of an uneventful Atlantic hurricane season. GOM supply therefore stands some 0.6 mb/d above storm-ravaged levels from a year ago. US total oil production is revised up by 40 kb/d for 2007, largely based on stronger baseline onshore supply. Overall US growth in 2007 is seen remaining muted, with oil rising from 7.4 mb/d in 2006 to 7.5 mb/d in 2007. Crude averages 5.15 mb/d and 5.18 mb/d respectively. Modest renewed growth is expected from Alaska in 2007, with further gains coming from GOM crude, and from US NGL and ethanol supply.





November Alaskan crude output fell by some 55 kb/d versus October, to 665 kb/d. For the second month running, adverse weather impeded recovery after the summer's pipeline outages. High winds cut tanker liftings from the port of Valdez from mid-month and resulting full storage forced the scaling back of production. However, crude production regained levels close to 800 kb/d in late November and early December, suggesting little downside impact for our earlier December projection. ConocoPhillips and Anadarko announced production start-up at the Nanuq satellite of the Alpine oilfield in late November. Production from Nanuq and an earlier satellite, Fjord, (both of which were already included in our projections) are seen potentially adding 35 kb/d to Alpine supply by 2008.

Canada – September actual: The Canadian forecast for 2H06 is revised down by around 20 kb/d, following September data showing weaker NGL and bitumen supply, alongside indications of weaker 4Q supply from offshore Newfoundland. The Terra Nova FPSO returned to service in November after maintenance, as expected, and should regain production levels around 110 kb/d in early 2007. However, PetroCanada guidance on likely 4Q06 output causes us to trim 25 kb/d from our earlier offshore east coast forecast. For 2007, higher conventional crude and bitumen expectations from the western provinces result in a 10 kb/d upward revision for 2007 Canadian supply. Canadian total production reaches 3.4 mb/d in 2007 from 3.2 mb/d in 2006, including 1.3-1.4 mb/d of synthetic crude and NGL. Rising bitumen, offshore east coast and syncrude output account for growth in 2007.



Longer-term growth in Canadian supply is expected to focus on the Alberta oil sands, which in 3Q06 accounted for 1.2 mb/d of total Canadian production. The *Medium-Term Oil Market Report* (*MTOMR*), released in July 2006, envisaged oil sands supply potentially exceeding 2.2 mb/d by 2011.

A recently released report from Natural Resources Canada (NRCan) came to similar conclusions, projecting 2.0 mb/d of production in 2010 and 2.5 mb/d by 2015. However, as noted last month, progress on expanding pipeline capacity to bring this oil to US and Asian markets will be crucial in realising this supply potential. Furthermore, the Canadian Association of Petroleum Producers (CAPP) in November released a report citing end-2005-established oil sands reserves of 8.6 billion barrels. This is markedly below earlier Albertan provincial estimates of 174 billion barrels, although CAPP estimates include developed projects only.

What a Difference a Year Makes: Minimal 2006 Hurricane Impact in US GOM

While the impact of 2005's devastating hurricane season on US crude supply carried over well into 2006, removing upwards of 200 kb/d from first-half 2006 supply, no direct losses have been suffered due to Atlantic hurricane activity in the second half of 2006. Using a five-year rolling average of storm outages, this report had been working on an assumption of 165 kb/d of shut-ins for 3Q 2006 and 215 kb/d for 4Q 2006. As recently as June, this report was projecting 1.3 mb/d crude output for 2006 from the Federal Gulf of Mexico. Now, based on preliminary US data through November, the GOM looks like averaging 1.4 mb/d in 2006.

US Gulf of Mexico Hurricane Outages
(thousand barrels per day)

	July	August	September	October	November	December
2001	0	0	0	0	0	0
2002	0	0	290	400	100	50
2003	90	0	0	0	0	0
2004	0	40	470	420	200	150
2005	175	245	1130	910	630	400
2006	0	0	0	0	0	0
5-Year Averages						
2005	18	8	315	164	60	40
2006	53	57	378	346	186	120
2007	53	57	378	346	186	120

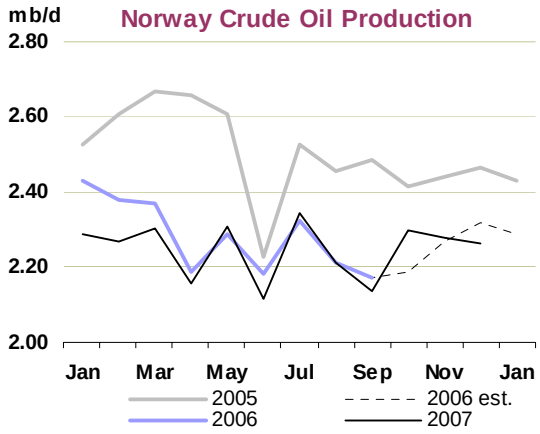
Coincidentally, our 2007 forecast retains an assumption of outages averaging 190 kb/d in second-half 2007, the same as originally projected for 2006. This is because the rolling average of outages has now replaced one 'zero disruption' year (2001), with another (2006). On a net basis the rolling five-year average is thus unchanged. The severity of the 2007 hurricane season remains to be seen, although forecasters are predicting another stronger-than-normal season, as they did for 2006. In the absence of another catastrophic year like 2005, there is clearly the potential for some upside for GOM production in 2007 compared with our forecast. However, further downside risks also surround supply from the area, and project slippage may continue to play a role. Recent high-profile announcements concerning delays, including those for the Thunder Horse and Atlantis projects, have reduced forecast 2007 GOM supply from 1.62 mb/d in July's OMR, to a present outlook of 1.44 mb/d.

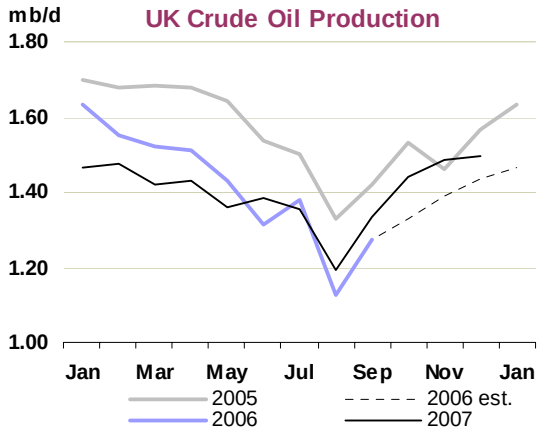
North Sea

Norway – September actual, October provisional: Contrary to expectations last month, provisional data for October show Norwegian production rising by 125 kb/d from September, with a further possible rise of over 100 kb/d in November. The increases occurred despite a series of outages in October due to lifeboat system safety checks and, in November, the shut-down of the 30 kb/d Visund field due to a faulty compressor. October estimates suggest overall 2.2 mb/d of crude oil production alongside 0.5 mb/d of condensate and NGL. Total oil production is now seen averaging 2.79 mb/d in 2006 and 2.84 mb/d in 2007.

This report's estimates for 2007 Norwegian production come in below recent government forecasts, but there are signs of increasing E&P activity in the Norwegian sector, which could result in upward revisions for production forecasts in the months ahead. Statistics Norway has upgraded its projections

for 2006 and 2007 oil and gas investment, which is seen approaching $16.5 billion in both years. Exploration spending for 2007 was upgraded to $4.1 billion from a third-quarter forecast of $3.2 billion, and represents the highest nominal spend since 1985. However, the report acknowledged that some of the planned exploration investment may be deferred due to capacity shortages. And a Norwegian Oil Industry Association (OLF) report in early December raised concerns about longer-term supply potential, dependent upon access to northern areas of the continental shelf and larger reserve discoveries than those made recently.

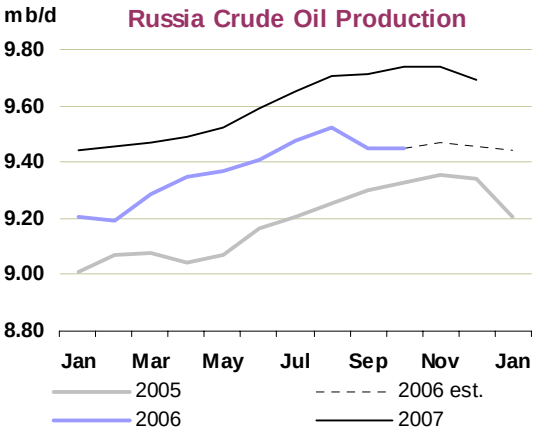


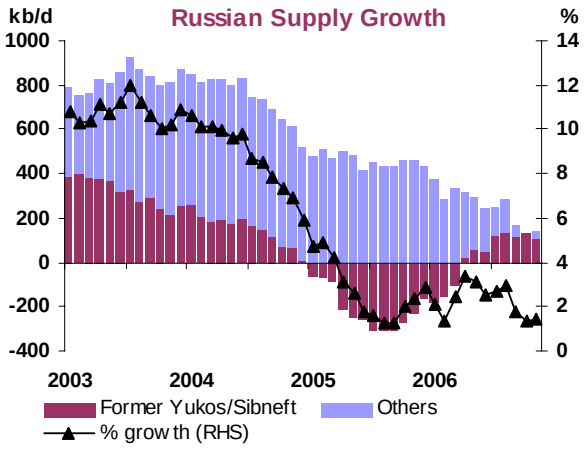


UK – September actual: August field by field data result in a redistribution of production estimates away from the Forties and west of Shetlands systems, and more towards other areas. Maintenance in both August and September has proved stronger than expected, while baseload UK NGL supply is also running below expectations. Start-up at Nexen's Buzzard field in the Forties system has also been pushed back from November to late December due to weather-related delays in completing hook-up and commissioning work. In all, UK production is revised down by 60 kb/d in 4Q06 and by 70 kb/d for 1Q07 to reflect the lower baseload and Buzzard delays. But downward adjustments taper off running through 2007, as a number of reports now suggest build-up in supply from Buzzard towards 200 kb/d capacity will be more rapid than we had previously expected. Buzzard is now seen contributing 120 kb/d to 2007 supply compared with 100 kb/d in last month's report. This should help stabilise UK crude offshore production at around 1.4 mb/d after four years, each of which has seen near-200 kb/d decline. NGL and onshore crude contribute a further 275 kb/d of production in 2007.

Former Soviet Union (FSU)

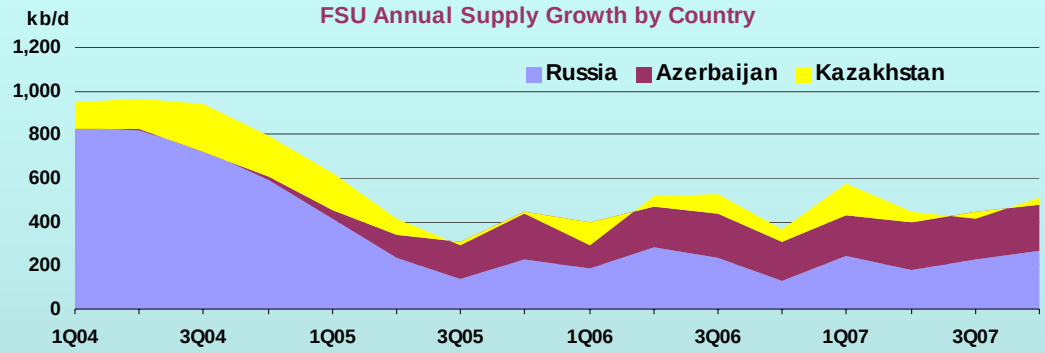
Russia – October actual, November provisional: October and November government data point to Russian oil production respectively 10 kb/d and 30 kb/d above this report's previous estimates, at some 9.8 mb/d. The upward revisions derive from stronger performance by smaller operators and, ironically given geopolitical factors discussed below, from the two producing Sakhalin projects in Russia's far east. Despite stronger 4Q-to-date outcomes, growth has now slipped below 2% on an annual basis, raising questions over projections of growth above this level for 2007 and beyond.





Storm Clouds on the FSU Supply Horizon

FSU production is on course for growth of over 400 kb/d in 2006, and expansion of 490 kb/d is currently envisaged for 2007. This compares to annual rises of 650-900 kb/d during 2001-2004. Russia and Azerbaijan provide the main impetus for 2006/2007 expansion, with Kazakhstan coming more into the frame later in the decade. However, the Russian government's attempts to reinstate control and influence over regional energy assets and infrastructure, reversing the trend towards widespread liberalisation seen in the 1990s, may impede growth prospects. Future access to Russian reserves and the legal operating framework remain uncertain. Geopolitical and infrastructure issues, not below-ground risks, may limit the FSU contribution to medium-term non-OPEC growth.



Recent factors which could impact upon supply growth from the FSU include the following:

- The Sakhalin 2 project expansion is stalled by a combination of environmental infringements and government concerns over cost overruns, which undermine project revenues accruing to the state. Operator Shell may be forced to cede part of its stake to Gazprom;
- The recently-started Sakhalin 1 project (250 kb/d) faces permit delays for the De Kastri export terminal. Sakhalin 1 had been thought less prone to delay as state-favoured operator Rosneft is a partner;
- Russia (24% stakeholder) continues to block the doubling of the 680 kb/d CPC pipeline from Kazakhstan to Novorossiysk, seeking 40% tariff increases and accelerated loan repayments. November saw Russian threats to close the export terminal on alleged license irregularities;
- Moves by the Natural Resource Ministry to rigourously enforce the terms of existing production licenses. This could impact upon over-production, believed by the Ministry to amount to as much as 10% currently, but also conversely could reactivate idle production assets;
- Russian state pipeline operator Transneft's moves to impede crude exports to Ukraine, Lithuania and Belarus, and a revised pricing strategy that could constrain the availability of gas and liquids exports from Azerbaijan's soon-to-start Shah Deniz project;
- A general trend towards greater state control of Russian production (currently 35%, but seen by some as rising ultimately in excess of 50%), with state producers seen unlikely to preside over such rapid capacity expansion as achieved by the private operators.

Both the *OMR* and *MTOMR* already take account of project risks, discounting, where appropriate, company growth plans, deferring headline start-up dates and assessing the feasibility of new pipeline completion and capacity. Recent weeks have seen intensified Russian political pressure on both domestic and neighbouring country operators which, if followed through, may undermine growth. The uncertain impact of political rhetoric means that much of the risk is incorporated in our habitual 300-400 kb/d "downside" proviso for the non-OPEC forecast. But there comes a time when the balance of probability tips in favour of scaling back base case supply projections. For now, only the latest problems facing Sakhalin 1 feed directly into the forecast. There may be more to come.

Production assets formerly held by Yukos and Sibneft, which drove the initial slow-down in Russian growth from mid-2004, have now recovered, albeit growth remains modest. However, production from other major operators such as Lukoil, TNK-BP, Rosneft and Gazprom now seems to have levelled off. Some rebound is expected from 1Q07, bearing in mind the exceptional, weather-related outages suffered in early 2006. And 2007's growth of 230 kb/d is also heavily dependent on the attainment by Sakhalin 1 of targeted export levels. Moreover, there have been reports of some producers trying to maximise margins by shutting in low-productivity wells and of others deferring production increments into 1Q07 to capture improved fiscal terms due from January. The first quarter will therefore be a valuable barometer of the robustness of our 2.4% growth forecast for 2007.

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

	2004	2005	4Q2005	1Q2006	2Q2006	3Q2006	Aug 06	Sep 06	Oct 06	Latest month vs. Sep 06	Latest month vs. Oct 05
Crude											
Black Sea	2.20	2.27	2.23	2.25	2.26	2.27	2.36	2.15	2.14	-0.01	-0.18
Baltic	1.51	1.59	1.55	1.54	1.73	1.49	1.42	1.46	1.34	-0.12	-0.25
Arctic/FarEast	0.25	0.19	0.17	0.10	0.11	0.20	0.24	0.20	0.21	0.02	0.00
BTC	0.00	0.00	0.00	0.00	0.01	0.22	0.27	0.22	0.25	0.03	0.25
Crude Seaborne	3.96	4.05	3.95	3.89	4.11	4.18	4.29	4.02	3.94	-0.08	-0.18
Druzhba Pipeline	1.10	1.15	1.23	1.20	1.16	1.23	1.17	1.23	1.12	-0.11	0.00
Other Routes	0.23	0.25	0.26	0.31	0.38	0.38	0.37	0.42	0.46	0.04	0.22
Total Crude Exports	5.29	5.45	5.44	5.39	5.65	5.80	5.83	5.67	5.53	-0.15	0.03
Of Which: Transneft	3.76	4.04	4.07	4.05	4.23	4.16	4.11	4.10	3.78	-0.32	-0.32
Products											
Fuel oil	0.90	0.93	1.04	0.87	1.05	0.94	0.99	0.88	0.95	0.07	-0.02
Gasoil	0.84	0.87	0.95	1.01	0.95	0.94	0.95	0.94	0.92	-0.02	0.10
Other Products	0.46	0.58	0.60	0.60	0.70	0.63	0.66	0.52	0.52	0.00	-0.02
Total Product	2.19	2.38	2.58	2.47	2.69	2.50	2.61	2.34	2.40	0.05	0.06
Total Exports	7.48	7.83	8.02	7.87	8.34	8.30	8.44	8.02	7.92	-0.09	0.09
Imports	0.01	0.02	0.02	0.03	0.03	0.03	0.03	0.01	0.02	0.00	-0.01
Net Exports	7.47	7.81	8.00	7.84	8.31	8.27	8.41	8.00	7.91	-0.10	0.11

Sources: Petro-Logistics, IEA estimates
Note: Transneft data has been revised to exclude Russian CPC volumes.

September **net FSU exports** are revised down by 160 kb/d compared with last month's estimate on evidence of lower seaborne Baltic crude shipments. Total net exports come to 8.0 mb/d for September and are believed to have fallen further to 7.9 mb/d in October. Baltic and Druzhba pipeline crude shipments account for October's fall, offset in part by a 60 kb/d increase in products exports. Based on Russian crude export schedules, and a likelihood that in general, crude and products exports may have remained constrained ahead of lower December export duties, overall FSU exports may have slipped by a further 100 kb/d or so in November. However, Russian crude export schedules, and a more benevolent fiscal export regime, suggest sharply higher December exports.

Other Non-OPEC

Revisions to Other Non-OPEC Estimates

Non-OPEC supply is revised down by 40 kb/d for 2006 and by 115 kb/d for 2007. For 2006, the adjustments centre on the North Sea, China, Brazil, Egypt and Sudan. The impact of 2007 adjustments tapers off through the year, but is focused on now-weaker forecast supply from the North Sea, Australia, Russia, Brazil, Egypt, Mauritania and Sudan. The USA, Kazakhstan, China, India and Malaysia provide some upward supply offset to an otherwise weaker picture for 2007.

Australian production is revised down by 40 kb/d for 2007, with weaker output now expected by operator Woodside Petroleum for the Enfield development in the Carnarvon Basin.

Chinese output is trimmed by 25 kb/d for 4Q06 based on official October data. However, 2007 projections have been raised by 15 kb/d on average on evidence of more stable supply from older fields such as Daqing and Shengli, plus a stronger offshore profile.

Further delays to new field start-ups in **Brazil** (at the Piranema, Golfino and Roncador fields) trim 30 kb/d from the 2007 forecast. Nonetheless, Brazil remains a mainstay of non-OPEC growth, with nearly 200 kb/d of incremental crude and ethanol supply expected for 2007. A combination of lower baseline supply for late 2006 and now-weaker expectations for 2007 from industry and government sources account for downward adjustments in 2007 of some 20 kb/d each from **Egypt, Mauritania** and **Sudan**.

Revisions to Non-OPEC Oil Supply
(million barrels per day)

	Last Month's OMR				This Month's OMR				This Month vs. Last Month			
	2006	2007	06 v 05	07 v 06	2006	2007	06 v 05	07 v 06	2006	2007	06 v 05	07 v 06
North America	14.29	14.45	0.15	0.16	14.32	14.49	0.18	0.17	0.03	0.04	0.03	0.01
Europe	5.23	5.30	-0.37	0.07	5.20	5.27	-0.40	0.06	-0.03	-0.04	-0.03	-0.01
Pacific	0.57	0.68	-0.02	0.11	0.57	0.66	-0.01	0.08	0.00	-0.03	0.00	-0.03
Total OECD	**20.10**	**20.44**	**-0.23**	**0.34**	**20.09**	**20.42**	**-0.23**	**0.32**	**0.00**	**-0.03**	**0.00**	**-0.02**
Former USSR	12.04	12.58	0.40	0.53	12.05	12.55	0.42	0.49	0.01	-0.03	0.01	-0.04
Europe	0.15	0.13	-0.01	-0.01	0.15	0.13	-0.01	-0.01	0.00	0.00	0.00	0.00
China	3.69	3.72	0.07	0.03	3.68	3.74	0.07	0.05	-0.01	0.02	-0.01	0.02
Other Asia	2.70	2.73	0.02	0.03	2.70	2.74	0.02	0.03	0.00	0.00	0.01	0.00
Latin America	4.44	4.66	0.15	0.22	4.43	4.64	0.13	0.20	-0.01	-0.02	-0.01	-0.01
Middle East	1.75	1.69	-0.12	-0.06	1.74	1.70	-0.12	-0.05	0.00	0.01	0.00	0.01
Africa	4.02	4.53	0.30	0.51	3.99	4.46	0.28	0.47	-0.03	-0.07	-0.03	-0.04
Total Non-OECD	**28.79**	**30.04**	**0.82**	**1.25**	**28.75**	**29.95**	**0.78**	**1.20**	**-0.04**	**-0.09**	**-0.03**	**-0.05**
Processing Gains	1.90	1.92	0.04	0.02	1.90	1.92	0.04	0.02	0.00	0.00	0.00	0.00
Other Biofuels	0.18	0.34	0.06	0.17	0.18	0.34	0.06	0.17	0.00	0.00	0.00	0.00
Total Non-OPEC	**50.96**	**52.74**	**0.68**	**1.78**	**50.92**	**52.63**	**0.65**	**1.70**	**-0.04**	**-0.12**	**-0.04**	**-0.08**

OMR = Oil Market Report

Kazakhstan supply growth is expected to lag both its own buoyant mid-decade levels and those of neighbours Russia and Azerbaijan in 2007. However, oil supply is revised up by 15 kb/d for 2007, growing by 50 kb/d versus 2006 and averaging 1.34 mb/d for the year. A higher late-2006 baseline underpins the adjustment. Longer-term expansion involving the Kashagan project and the sour gas injection phase of the producing Tengiz field, will partly depend on access to new pipeline capacity.

OECD STOCKS

Summary

- **Total OECD oil inventories** fell by 40 mb in October to 2,721 mb. Oil product stock draws in North America and Europe outweighed a smaller crude build in North America, while modest crude and product stock movements in the OECD Pacific balanced each other. The year-on-year difference in total OECD stocks fell sharply to 33 mb, compared with 121 mb for September.

- **The North American product stock draw**, as anticipated in last month's report, was significant, reflecting longer and heavier US refinery maintenance and continued strong demand. While this indicates a tightening of the market, total product stocks in North America – as in the OECD as a whole – remain higher than in previous years both in terms of volume and forward demand cover.

Preliminary Industry Stock Change in October 2006 and Third Quarter 2006

(million barrels per day)

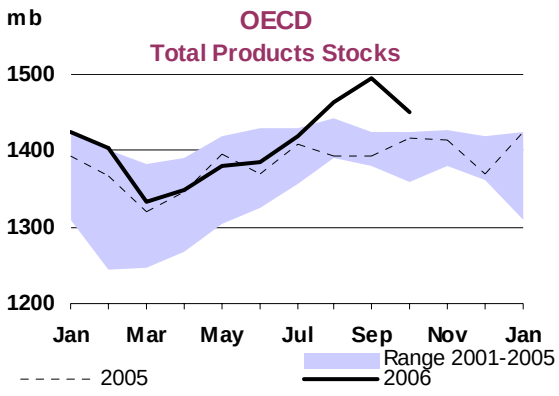
	October (preliminary)				*Third Quarter 2006*			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
Crude Oil	**0.28**	**-0.15**	**0.04**	**0.18**	**-0.02**	**-0.12**	**-0.07**	**-0.21**
Gasoline	-0.41	-0.04	0.01	-0.43	0.03	0.04	-0.01	0.06
Distillates	-0.43	-0.32	0.03	-0.72	0.25	0.16	0.18	0.59
Residual Fuel Oil	-0.02	0.03	-0.01	0.00	0.01	0.01	0.01	0.03
Other Products	-0.17	0.00	-0.08	-0.24	0.29	0.08	0.13	0.50
Total Products	**-1.03**	**-0.33**	**-0.04**	**-1.40**	**0.59**	**0.29**	**0.30**	**1.18**
Other Oils[1]	-0.04	-0.03	-0.02	-0.09	0.15	0.02	0.02	0.19
Total Oil	**-0.79**	**-0.50**	**-0.01**	**-1.31**	**0.72**	**0.19**	**0.25**	**1.16**

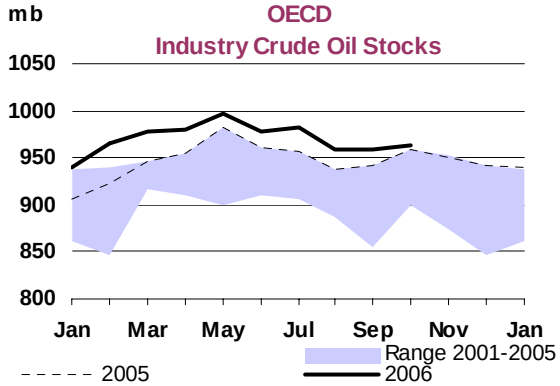
1 Other oils includes NGLs, feedstocks, and other hydrocarbons.

- **OECD crude oil stocks** rose by 5.5 mb in October to 964 mb, reflecting lower refinery throughputs due to seasonal maintenance. They now stand 5.3 mb higher than last year. The rise came mainly in North America and to some extent in the Pacific, while European crude stocks fell slightly on lower stocks in the Netherlands, Italy, Germany and Norway.

- **OECD total product inventories** in October reversed their September trend, and fell by 43 mb to 1,451 mb. This was largely due to product stock drawdowns in the US, where demand was healthy and refinery runs remained muted due to longer-lasting maintenance. European product stocks also fell by 10 mb, while Pacific product stocks were virtually unchanged. The comparison with last year's hurricane-affected stock levels is somewhat misleading, but it is nevertheless striking that September's year-on-year product stock increase of 102 mb was slashed to only 35 mb in October.

- **Days of forward demand cover** for the OECD as a whole fell to 54 days in October. This was one day lower than in September, but still one day higher than in October last year. Cover came to 51 days for North America, 61 days for Europe and 50 days for the Pacific.



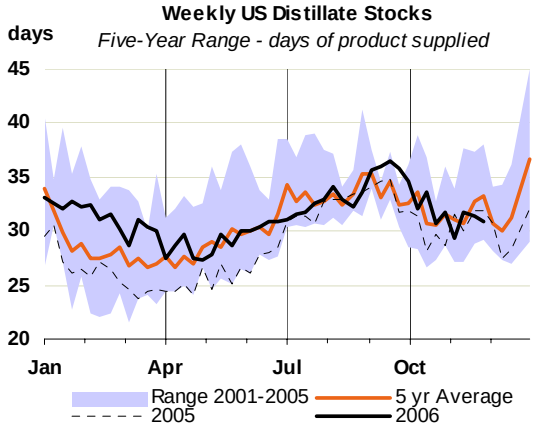


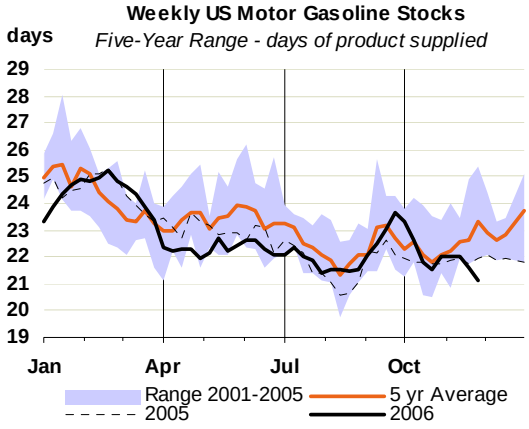
OECD Industry Stock Changes in October 2006

OECD North America

North American crude oil inventories increased by 8.7 mb in October, on builds of 5.8 mb and 2.9 mb in the US and Mexico respectively. This was due to maintenance reducing US refinery runs by 673 kb/d in October, while NYMEX WTI's near-month contango widened further, encouraging stock building. In November, US-50 crude stocks added another 5.2 mb, according to preliminary data, as increased crude production outpaced a rise in runs and slightly lower imports. Stocks in Cushing, Oklahoma, the delivery point for NYMEX WTI crude, averaged 25 mb in November, up from October, and reached a record high of 26.8 mb in the week ended 1 December.

Conversely, North American product stocks fell by 32 mb in October to 691 mb, largely on lower stocks in the US. Total US distillate and gasoline inventories were down by 12 mb and 11 mb respectively, as transport demand stayed high, and refineries underwent maintenance.

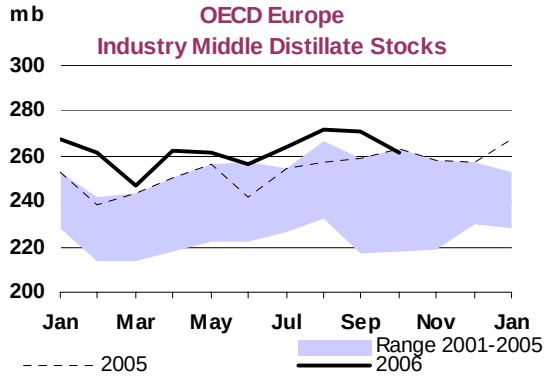


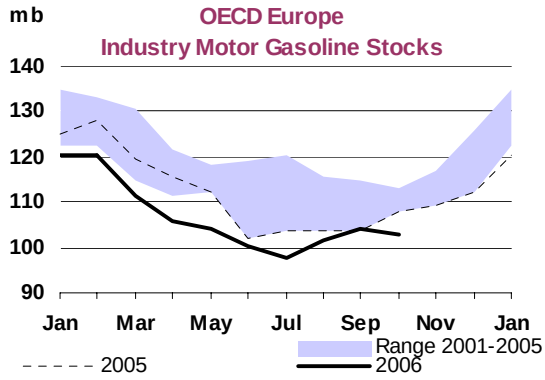


In November, US-50 product stocks fell a further 25 mb, of which 4.3 mb were gasoline, 4.0 mb jet fuel and 7.4 mb distillate. Of the latter, some 2.5 mb were heating oil, 1.6 mb were ultra-low-sulphur diesel (ULSD) and 3.2 mb were of low-sulphur diesel stocks. Some of the diesel may have been exported to Europe, while some of the shift was likely related to drawdowns in low-sulphur diesel stocks after the final stage in the shift to ULSD for on-road vehicles. In terms of forward demand cover, both gasoline and distillate stocks have now fallen below their respective five-year averages for this time of the year. The total US stock draw (crude and products) in October and November combined comes to 45 mb.

OECD Europe

European crude oil stocks fell by 4.6 mb to 322 mb in October and are nearly 12 mb lower than last year. This was mainly due to draws in the Netherlands, Italy, Germany and Norway. Mid-September saw a peak in WTI's premium over Dated Brent, which may have encouraged a higher flow of crude westwards across the Atlantic in October. European refining margins also improved somewhat in October compared with September, but refinery throughputs fell slightly in Europe as a whole. In November, results were more mixed, with Mediterranean cracking margins improving, while NWE margins fell.





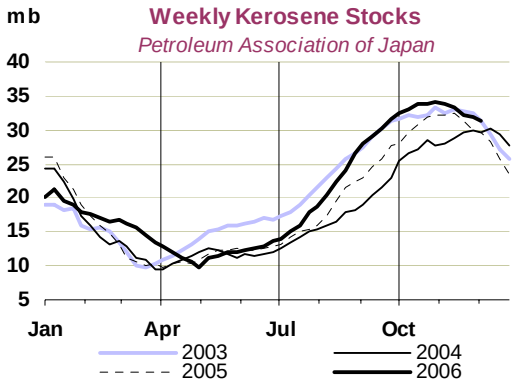
European product inventories were down by 10 mb in October, falling to 550 mb. This was almost wholly due to a fall of 10 mb in middle distillates. A gasoline draw of 1.2 mb was balanced by a similar increase in residual fuel oil and 'other products'. Product stocks were down in all major European countries, though France and the Netherlands alone accounted for almost half the draw in middle distillates. In France's case, this was due to a dip in refinery runs of 122 kb/d and strong inland deliveries. Preliminary data show October heating oil supplied in France to be up 35% year-on-year, but this is somewhat exaggerated by a weak figure last year.

In the Netherlands, higher deliveries into barge markets and strong pre-winter buying reported from Germany contributed to falling distillate stocks. Total European refinery runs were down some 290 kb/d in October. While European gasoline demand and stock levels are structurally declining, middle distillate inventories are at the top of the range. German consumer heating oil stocks rose to 68% of storage capacity in October, continuing to reflect a desire to stock up ahead of a tax increase next year rather than cold temperatures. This is up from 65% at end-September, and up from 59% one year ago.

OECD Pacific

In the Pacific, crude oil stocks rose by 1.4 mb in October to 176 mb, only a marginal 1.7 mb up on the year. A Japanese crude stock build of 6.4 mb outpaced a fall in crude levels in Korea of 5.0 mb. Japanese crude throughputs were lower than in the last three years on weak demand for refined products and high kerosene stocks. November data from the Petroleum Association of Japan have shown refinery runs pick up as demand for winter heating fuel kerosene in particular rose. Nevertheless, onshore crude stocks remained steady in November. In Korea, crude stocks fell in October as lower imports outpaced reduced refinery throughputs.

Pacific product inventories only inched down by 1.2 mb in October, to 210 mb. This is 7.6 mb higher than October last year. The fall came mainly in residual fuel oil and 'other products' in Japan (each -1.4 mb), while Korean 'other products' were also down by 900 kb. Unlike North America and Europe, the OECD Pacific saw small builds in gasoline and middle distillate stocks of 400 kb and 1 mb respectively on lower demand. Japanese October refinery runs were down by 9% from September, and 12.5% from October last year, at 3.6 mb/d.



Weekly data from the Petroleum Association of Japan show that refinery throughputs increased by 470 kb/d in November. Nevertheless, a prevailing kerosene stock overhang in early November has been transformed by five consecutive weekly draws, marking the beginning of the winter heating season. Total finished product stocks are still slightly higher than one year ago. In contrast, unfinished product stocks have failed to build with the return of refineries from autumn maintenance, and at 55 mb remain lower than average.

OECD Inventory Position at End-October and Revisions to Preliminary Data

OECD total industry stocks stood at 2,721 mb at the end of October, 41 mb lower than at the end of September, and 33 mb higher than one year ago. This year-on-year increase is sharply lower than one month ago, when total industry oil inventories were 121 mb higher than the previous year. Total product stocks were 35 mb higher than October last year, while crude stocks are up 5 mb. In terms of regions, total North American stocks are 41 mb higher year-on-year, European levels are 14 mb lower, while total Pacific oil stocks are 6 mb up on the year.

Year-on-Year OECD Industry Stock Comparisons for October 2006

	(million barrels)					*(Days of Forward Demand)*			
	North America	Europe	Pacific	Total		North America	Europe	Pacific	Total
Crude Oil	**15.3**	**-11.7**	**1.7**	**5.3**	**Total Oil**	**0.9**	**-0.5**	**1.4**	**0.6**
Total Products	27.3	0.2	7.6	35.1	*Versus 2004*	4.3	0.4	1.4	2.5
Other Oils[1]	-1.3	-2.7	-3.3	-7.3	*Versus 2003*	2.4	0.5	2.6	1.8
Total Oil	**41.3**	**-14.2**	**6.0**	**33.1**	**Total Products**	**0.7**	**0.3**	**1.2**	**0.6**
Versus 2004	115.0	-1.1	20.4	134.2	*Versus 2004*	1.8	0.5	1.9	1.4
Versus 2003	103.8	22.5	21.4	147.7	*Versus 2003*	1.0	1.6	1.4	1.3

1 Includes feedstocks, NGLs and other hydrocarbons.

Days of forward demand cover for the OECD as a whole fell to 54 days in October. This was one day lower than September, but still one day higher than in October last year. Cover came to 51 days for North America, 61 days for Europe and 50 days for the Pacific.

Revisions versus 10 November 2006 Oil Market Report

(million barrels)

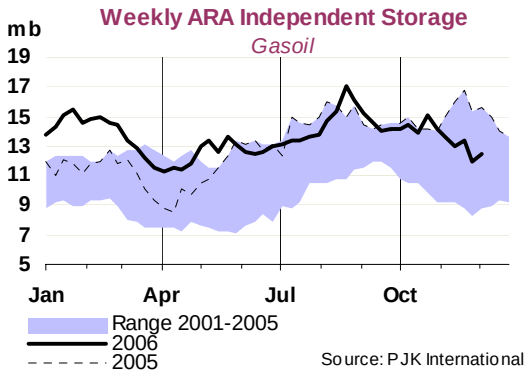
	North America		*Europe*		*Pacific*		*OECD*	
	Aug 06	Sep 06	Aug 06	Sep 06	Aug 06	Sep 06	Aug 06	Sep 06
Crude Oil	**-3.5**	**-0.8**	**-0.8**	**3.2**	**0.4**	**-2.0**	**-3.9**	**0.5**
Gasoline	0.0	-2.0	-0.6	0.2	0.0	-0.9	-0.6	-2.7
Distillates	0.0	-8.2	2.7	4.5	0.1	0.4	2.8	-3.3
Residual Fuel Oil	0.0	0.2	0.5	-1.1	0.0	-0.1	0.5	-0.9
Other Products	0.0	5.9	-0.1	2.3	0.0	-0.7	-0.1	7.4
Total Products	**0.0**	**-4.1**	**2.5**	**5.9**	**0.2**	**-1.3**	**2.7**	**0.5**
Other Oils[1]	-1.7	0.9	0.0	0.3	0.0	-0.1	-1.7	1.0
Total Oil	**-5.2**	**-4.0**	**1.7**	**9.4**	**0.6**	**-3.4**	**-2.9**	**2.0**

1 Other oils includes NGLs, feedstocks, and other hydrocarbons.

Revisions to September stock data show only a minor upward shift of 2.0 mb, of which 500 kb each were crude and refined products, and another 1 mb 'other oils'. An upward revision in Europe of 9.4 mb, of which 5.9 mb was products and 3.2 mb crude (+0.3 mb 'other products'), was largely offset by downward revisions for both North America and the Pacific. August figures were revised downwards by 2.9 mb, with a 5.2 mb downward revision for Canada partly offset by an upward revision for Europe.

Recent Developments in ARA Independent Storage

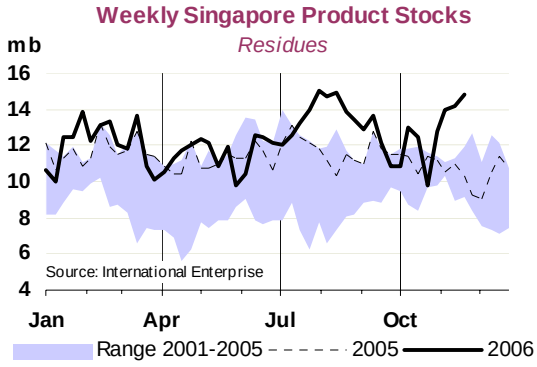
Total oil product inventories held in independent storage in the Amsterdam-Rotterdam-Antwerp (ARA) area fell sharply in November, according to consultant PJK International. In a reversal of October's trend, fuel oil stocks saw a strong draw in the course of the month, which in combination with a decrease in gas oil inventories outweighed increases in gasoline, naphtha and jet/kerosene.



Fuel oil stocks were down after BP reportedly loaded three VLCCs for shipment to Asia, despite unfavourable arbitrage economics. Deliveries of gas oil have increased ahead of winter consumption, with consumers apparently taking advantage of lower retail prices while temperatures remain unseasonably mild. Meanwhile, gasoline and jet fuel stocks were up again marginally, despite reports of strong flows of gasoline to the US, and favourable arbitrage economics on paper.

Recent Developments in Singapore Stocks

According to International Enterprise, total oil product stocks held in Singapore rose by 2.2 mb in November. Inventories of all three product categories rose, but most of the increase was due to fuel oil and light distillate stocks increasing. An influx of fuel oil from the west, rising refinery throughputs after maintenance and low bunker demand, were the primary causes. Moreover, Chinese fuel oil imports in November were lower.



Light distillate stocks rose by 750 kb to the middle of the five-year average range. Unusually, Europe has been sending some naphtha to Asia recently. Middle distillate stocks only rose marginally, after interest in jet fuel and kerosene picked up in Japan and China, where buying interest has been muted. Some diesel cargoes have also been sent to Europe.

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

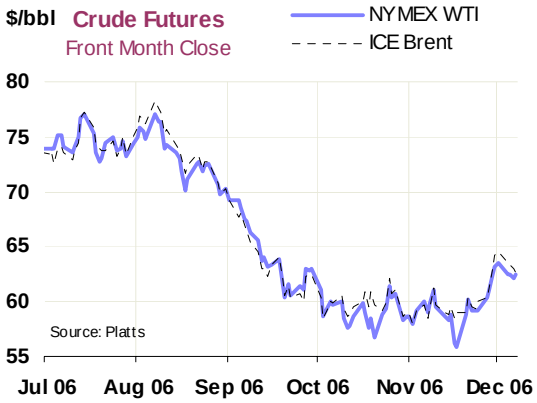
- **Oil prices traded in a narrow range** around $60/bbl in November as heavier-than-expected US refinery maintenance was offset by an observed OPEC-10 output cut of 500 kb/d. Prices rose in early December, as US product stocks fell amid the first winter cold snap, and markets mulled the prospects for a further OPEC cutback arising from its meeting held on 14 December.

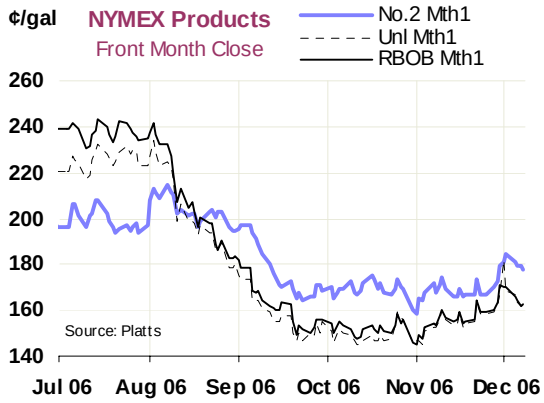
- **Average November crude prices were marginally higher** than in October and picked up further in early December. Light sweet crudes in particular benefited, as a lack of upgrading capacity due to US refinery maintenance drew West African crudes across the Atlantic despite unfavourable arbitrage economics. Physical WTI remained cheaper than Brent due to heavy Midwestern refinery maintenance and high crude stocks.

- **Refining margins diverged in November** as upgrading margins strengthened. Complex refineries benefited from price gains for light and middle products, and stayed relatively attractive. Simple refining margins in contrast, were dragged down by weakening fuel oil prices and remained in negative territory.

- **Product prices trended sideways for most of November**, and then rose in early December due to sustained demand and falling US product stocks. Heating fuels benefited from the first cold snap in the US, and a series of kerosene stock draws in Japan.

- **Freight rates from the Middle East Gulf extended counter-seasonal declines** in November. Reduced OPEC exports and high third-quarter OECD crude stocks left a vessel overhang, which weighed on VLCC rates. Shorter-haul crude rates in the Atlantic Basin however firmed in late November on renewed US interest for light sweet crudes.



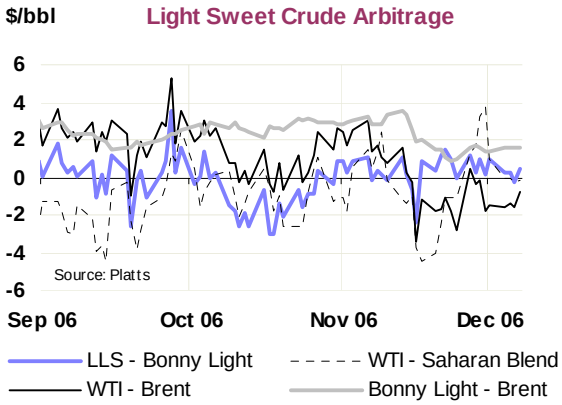


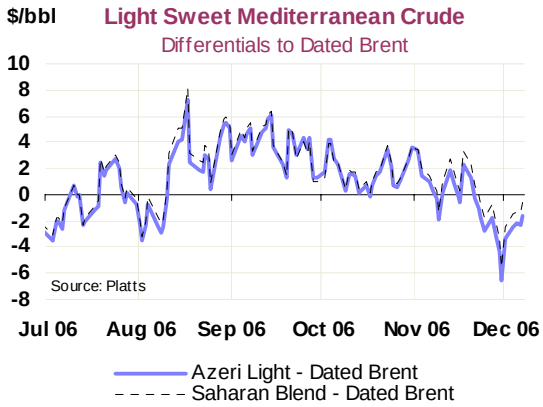
Overview

Oil prices continued to trade sideways for most of November on mixed market signals. Heavier-than-expected US refinery maintenance was largely offset by an OPEC-10 cut of 500 kb/d. Throughout the month however there was much uncertainty about whether and by how much the group had reduced output. Divergent weather forecasts, concerns about the US economy and a rise in geopolitical tensions created additional volatility and kept benchmark futures trading in the $58-62/bbl range. An exception was a sharp dip in NYMEX WTI on 17 November, when the contract touched $55.08/bbl on bearish US natural gas stock news.

Towards the end of November, however, prices broke through the upper end of the range, rising to their highest level since early September. OPEC's net 610 kb/d cut since September appears likely to curtail stocks, but the jury is still out on whether the group will announce a further cut at its meeting of 14 December. Given the fact that OPEC has so far only realised half the 1.2 mb/d cut announced on 20 October, a further declared reduction would have a primarily psychological impact on markets until the actual extent of any cutback became apparent.

Meanwhile, product stocks in the US have fallen by 25 mb in November, as refinery maintenance was heavier and more extended than had been anticipated. Despite unusually warm temperatures in most parts of the northern hemisphere, US consumption in particular remained strong due to ongoing firm transport demand. The advent of the US's first winter temperatures at the beginning of December gave a boost to prices, even though the cold snap did not last long. In terms of demand cover, total distillate and gasoline stocks have now dropped below their five-year average.





Lastly, geopolitical tensions rose after new attacks in Nigeria curbed oil exports further. ENI declared *force majeure* on some 100 kb/d of Brass River and Okono exports in late November. In the Middle East, King Abdullah of Jordan warned of the risk from three potential civil wars in the region. Violence appears to have increased in Iraq and there are concerns for future security in the country. The situation in Lebanon has deteriorated since the assassination of the industry minister, and large rallies have put pressure on the government. It is also unclear whether a fragile ceasefire between Israelis and Palestinians that came into force in late November will hold.

Spot Crude Oil Prices

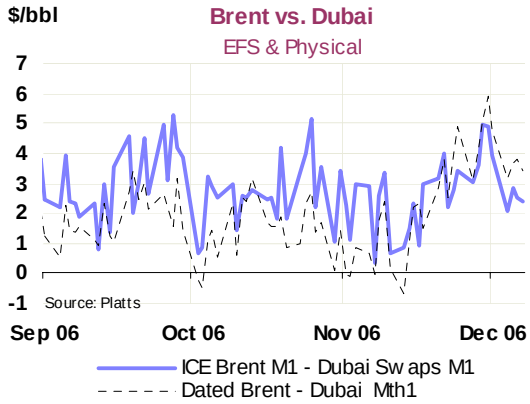
A combination of protracted refinery maintenance and strong demand for transport fuels has raised interest in lighter, sweeter crudes. Prices of Dated Brent and other similar North Sea, Mediterranean and West African crudes have risen more sharply than others, as US refiners in particular have drawn barrels across the Atlantic. A temporary lack of sophisticated upgrading capacity required higher imports of these crudes, despite the unattractive economics, with Dated Brent consistently more expensive than WTI. On the other hand, refiners were helped by lower freight rates. Nigerian crudes rose on the renewed outages, making Med grades such as Saharan Blend and Azeri Light look increasingly attractive.

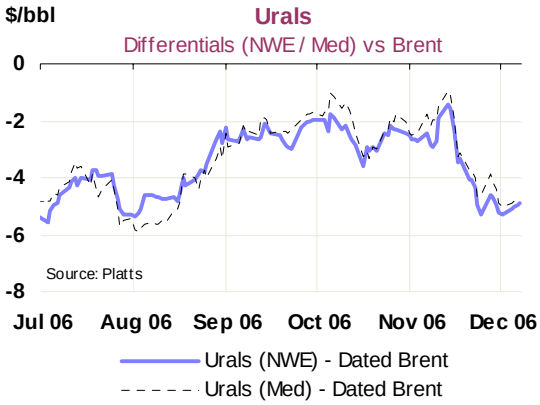
Spot Crude Oil Prices and Differentials

(monthly and weekly averages, $/bbl)

	Sep	Oct	Nov	Nov-Oct Avg Change	%	Week Commencing: 06 Nov	13 Nov	20 Nov	27 Nov	04 Dec
Crudes										
Dated Brent	61.71	57.79	58.92	1.12	1.9	58.28	58.06	59.51	62.64	63.71
Brent (Asia) Mth1 adjusted	64.63	60.70	60.31	-0.39	-0.6	61.02	60.22	59.15	61.93	64.29
WTI (Cushing) Mth1 adjusted	63.74	58.82	59.03	0.21	0.4	59.85	57.46	57.42	61.98	62.38
Urals (Northwest Europe)	59.24	55.31	55.51	0.20	0.4	55.72	55.65	54.96	57.69	58.72
Urals (Mediterranean)	59.47	55.68	55.95	0.28	0.5	56.39	55.99	55.37	58.18	58.90
Dubai Mth1 adjusted	59.82	56.42	56.72	0.29	0.5	57.30	56.77	55.89	58.04	60.21
Dubai Swaps Mth1 adjusted	60.58	57.27	57.28	0.02	0.0	57.81	57.27	56.53	58.65	60.65
Minas (Dated)	63.32	55.02	56.93	1.91	3.5	56.97	57.19	56.82	59.49	62.31
Tapis (Dated)	69.03	62.69	61.72	-0.97	-1.6	61.70	62.05	61.29	63.71	65.39
Differential to Dated Brent										
WTI (Cushing) Mth1 adjusted	2.03	1.03	0.11	-0.91		1.57	-0.60	-2.09	-0.66	-1.33
Urals (Mediterranean)	-2.24	-2.12	-2.97	-0.85		-1.89	-2.07	-4.14	-4.46	-4.81
Urals (Northwest Europe)	-2.47	-2.49	-3.41	-0.92		-2.56	-2.41	-4.55	-4.95	-4.99
Dubai Mth1 adjusted - Dated Brent	-1.89	-1.37	-2.20	-0.83		-0.98	-1.29	-3.62	-4.60	-3.50
Dubai Swaps - Brent Asia	-4.06	-3.43	-3.03	0.40		-3.21	-2.95	-2.63	-3.28	-3.64
Tapis (Dated)	7.32	4.90	2.80	-2.09		3.42	3.99	1.78	1.07	1.69
Prompt Month Differential										
Forward Cash Brent Mth1-Mth2 adj.	-1.02	-1.18	-1.19	-0.02		-1.30	-1.31	-1.21	-0.85	-0.84
Forward WTI Cushing Mth1-Mth2 adj	-0.87	-1.68	-1.81	-0.13		-1.79	-2.13	-1.93	-1.44	-1.26

Dated Brent appears to have also risen due to tightness in the North Sea forward market. Refiners may be keen to snap up cargoes before the introduction of new Buzzard crude to the Forties stream in late December. Quality issues worry refiners, and may subsequently pressure the price of marker Dated BFO. This current tightness has contributed to a narrowing of ICE Brent's near-term contango.





Across the Atlantic, WTI prices have risen less sharply because of high crude stocks in the US, in part because of an increasing influx of Canadian pipeline crudes heading south. Moreover, Midwestern (PADD 2) refinery maintenance was particularly heavy, with considerable cracking capacity offline. Nationwide crude stocks are 7.3 mb below the 2006 peak, but are at a level last seen at this time of the year in 1998. And in delivery point Cushing, Oklahoma, crude stocks were at a record high 26.8 mb. WTI's weakness in turn has prompted some shipments of Latin American crudes, such as Brazilian Marlim, to Asia.

Selected Refining Margins in Major Refining Centres

($/bbl)

		Monthly Average			Change	Week Ending:				
		Sep 06	Oct 06	Nov 06	Nov 06-Oct 06	10 Nov	17 Nov	24 Nov	01 Dec	08 Dec
NW Europe	Brent (Cracking)	2.59	2.43	2.25	-0.18	2.65	2.62	1.94	1.32	0.04
	Urals (Cracking)	3.77	4.15	4.46	0.31	4.38	3.75	5.06	4.69	3.67
	Brent (Hydroskimming)	-2.52	-2.05	-2.67	-0.62	-2.20	-2.25	-3.11	-4.10	-5.55
	Urals (Hydroskimming)	-2.79	-1.67	-1.81	-0.13	-1.42	-2.43	-1.54	-2.43	-3.36
Mediterranean	Es Sider (Cracking)	1.52	1.31	2.80	1.49	2.42	2.21	3.49	3.32	2.45
	Urals (Cracking)	2.97	3.45	4.03	0.58	3.93	3.48	4.48	4.21	3.58
	Es Sider (Hydroskimming)	-4.09	-3.99	-3.00	0.99	-3.31	-3.43	-2.34	-3.15	-4.13
	Urals (Hydroskimming)	-3.91	-2.89	-2.90	0.00	-2.72	-3.33	-2.59	-3.58	-4.34
US Gulf Coast	Brent (Cracking)	-4.06	-2.85	-2.17	0.68	-0.97	-2.23	-3.02	-3.04	-5.27
	LLS (Cracking)	-0.48	1.49	0.86	-0.62	1.20	0.77	0.91	0.80	-1.12
	Mars (Cracking)	0.15	1.64	1.00	-0.64	1.52	1.08	1.27	0.29	-0.97
	Mars (Coking)	6.37	7.63	7.65	0.02	7.85	7.34	8.12	7.82	6.02
	Maya (Coking)	8.08	8.61	10.51	1.91	9.71	10.39	11.64	11.50	9.83
US West Coast	ANS (Cracking)	0.64	4.64	7.91	3.27	8.02	8.11	8.56	7.65	9.01
	Kern (Cracking)	3.55	6.22	7.29	1.07	7.06	7.02	7.06	8.74	8.59
	Oman (Cracking)	-2.21	-1.75	1.44	3.18	1.22	0.23	1.97	3.63	3.64
	Kern (Coking)	14.34	14.85	18.24	3.39	19.69	18.18	17.95	17.09	17.00
Singapore	Dubai (Hydroskimming)	-3.81	-2.68	-3.95	-1.27	-4.16	-4.42	-3.44	-4.08	-5.49
	Tapis (Hydroskimming)	-7.98	-5.72	-4.75	0.97	-5.21	-5.23	-4.06	-4.32	-5.26
	Dubai (Hydrocracking)	0.99	1.04	0.46	-0.58	-0.41	0.10	1.45	1.22	-0.52
	Tapis (Hydrocracking)	-4.06	-2.01	-0.79	1.22	-1.51	-1.27	0.14	-0.10	-1.43
China	Cabinda (Hydroskimming)	-5.37	-5.87	-6.50	-0.63	-6.72	-6.04	-6.16	-7.42	-7.38
	Daqing (Hydroskimming)	-10.09	-7.13	-8.19	-1.06	-8.34	-8.45	-8.06	-8.49	-9.78
	Dubai (Hydroskimming)	-4.37	-3.09	-4.29	-1.20	-4.52	-4.79	-3.79	-4.34	-5.80
	Daqing (Hydrocracking)	-4.60	-1.81	-2.13	-0.31	-2.59	-2.43	-1.70	-1.85	-3.35
	Dubai (Hydrocracking)	0.36	0.58	0.15	-0.42	-0.74	-0.23	1.14	1.02	-0.82

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.

Lower OPEC sour crude production in the Middle East Gulf gave Dubai some support in mid-November. Dubai may have also gained some support from closely-linked Oman, as China apparently bought an additional 2.5 mb of the grade in November. These developments led to a sharp narrowing of the Brent-Dubai spread. On paper this should have encouraged the arbitrage of Atlantic Basin crudes to Asia, but tanker loading data show an increase of exports to the west rather than the east. This increased Atlantic Basin buying due to refiners' thirst for grades with higher gasoline and distillates yields, coupled with falling fuel oil cracks, has since widened the spread again.

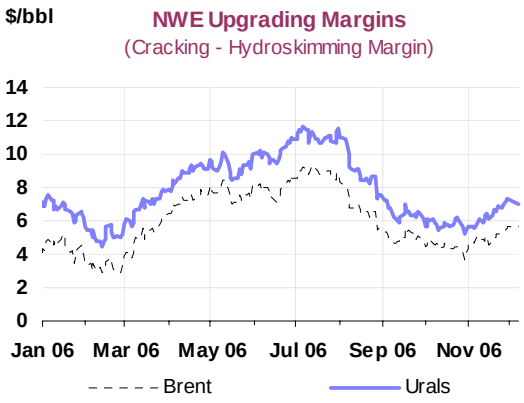
In Europe, Urals prices were pressured by the prospect of higher December export volumes from Russia. A lower crude export duty from 1 December is making shipments abroad more attractive. Relatively rapid round journeys through the Turkish Straits also helped. Hence, in early December, Urals's discount to Dated Brent had tripled from around $1.50/bbl in mid-November. Relative to Oman, Urals thus remains relatively attractive for Asian buyers.

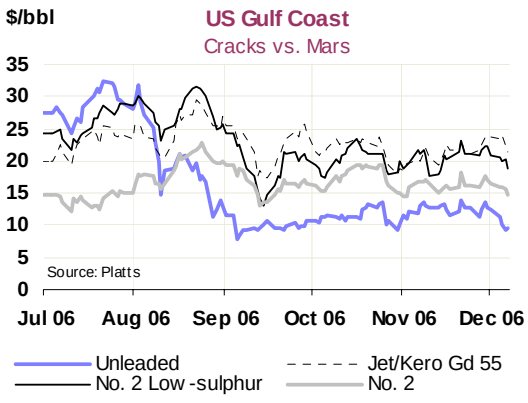
Delivered Crude Prices in September

IEA countries paid, on average, $62.77/bbl for delivered crude in September. This was almost $7/bbl less than August and was a direct result of late-summer decreases in global crude prices. European IEA countries felt a $9/bbl decrease in CIF crude in September, compared with a month-on-month decrease of $6.92/bbl in IEA North America. Pacific IEA countries paid $2.88/bbl less in September than August but should see more reductions in October as cheaper long-haul arrivals lower the average delivered price for the region.

Refining Margins

Refining margins in November were mixed. Most complex margins rose versus October and stayed high as late-month rises in product prices outpaced crude gains. Simple margins, in contrast, mostly fell as fuel oil weakened, and they remain negative. Hence upgrading margins widened over the month. Margins in the US West Coast saw the strongest gains in November, as heavy turnarounds and high crude stocks boosted cracks. In Europe, Urals's relative weakness towards the end of the month contributed to gains in cracking margins in both NWE and the Med. Brent cracking in Rotterdam suffered due to Brent's relative strength, while most hydroskimming margins fell. In Asia, margins were mixed, but remain weaker than in other regions.

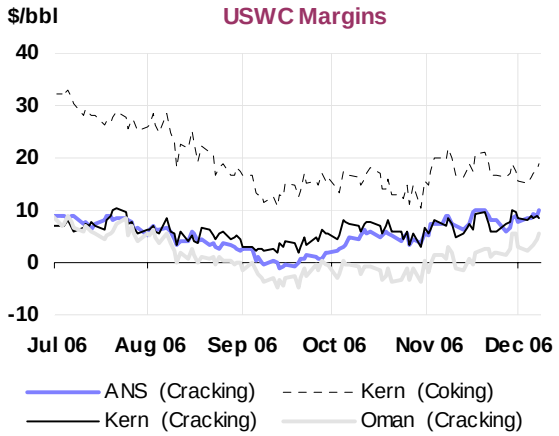


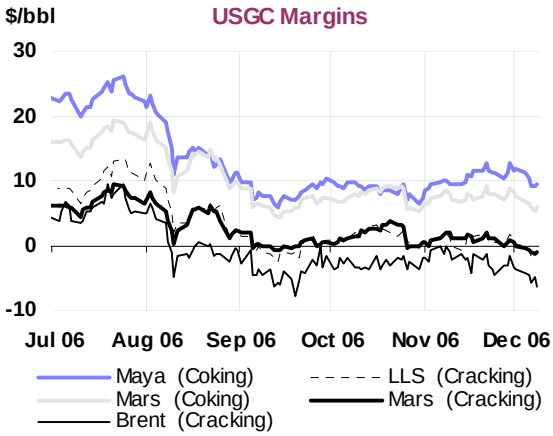


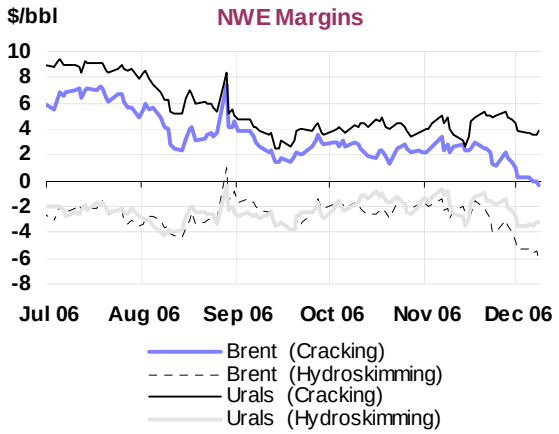
Spot Product Prices

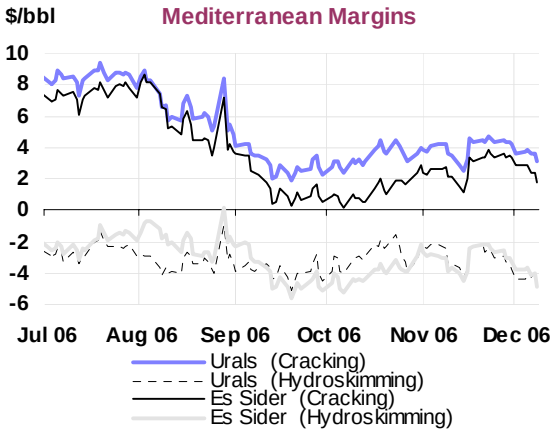
Spot prices of light and middle distillates trended sideways throughout most of November, but then rose late in the month and in early December. They were buoyed by sustained demand and supply tightness in the US, where autumn refinery maintenance was unexpectedly heavy. US total product stocks in November fell by 25 mb, of which 7.4 mb was distillate. Temperatures have mostly been warmer than average, but this winter's first cold snap in the US led to stock drawdowns and price rises. Jet fuel prices have shown the strongest rise in November and early December, in part squeezed by competing needs for heating oil and diesel. China returned to the market to buy jet supplies for

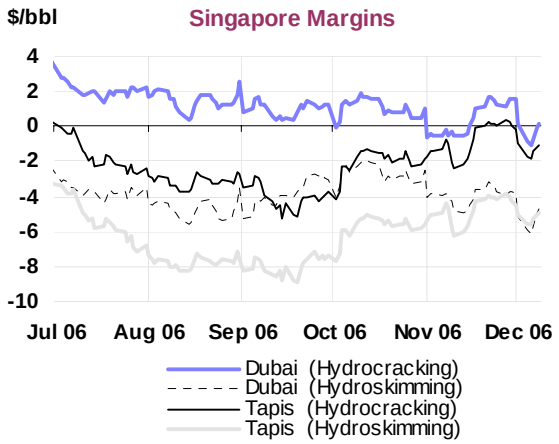
Regional Full-Cost Refining Margins

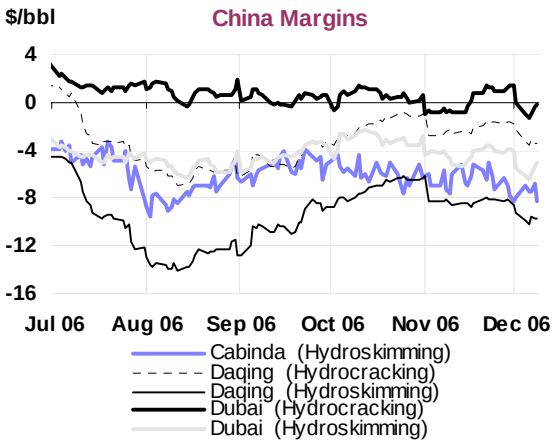




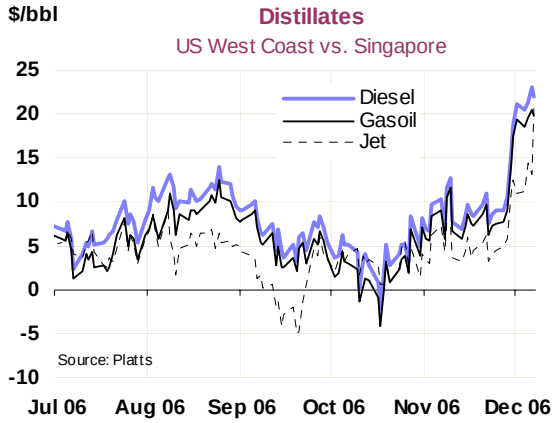


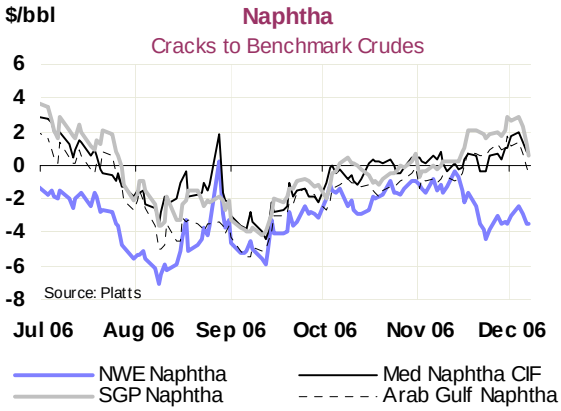






January, which gave some support. Japanese kerosene stocks have seen five successive weekly draws, bringing them more in line with previous years, and encouraging refiners to ramp up production. An opening arbitrage from Singapore to Rotterdam saw several fixtures of diesel cargoes to Europe. Overall, with the exception of jet fuel, distillate cracks remained steady in recent weeks.





Gasoline prices rose gently from mid-November, but cracks remained relatively low. In contrast, naphtha prices increased more substantially on lower scheduled exports from India in December. Increased demand there for power generation has reduced exports below the high volumes seen in the last couple of months. As a result naphtha's Singapore crack pulled itself out of negative territory in mid-November, where it had been languishing since July. But in early December, it fell again, as unusually, some cargoes were reportedly fixed from Europe and the Middle East to Asia.

Spot Product Prices

(monthly and weekly averages, $/bbl)

	Sep	Oct	Nov	Nov-Oct Change	Nov-Oct %	Week Commencing: 06 Nov	13 Nov	20 Nov	27 Nov	04 Dec	Sep	Oct	Nov
Rotterdam, Barges FOB											**Differential to Brent**		
Premium Unleaded	65.96	61.00	62.63	1.63	2.7	62.37	62.29	62.73	65.96	66.10	4.25	3.20	3.71
Naphtha	57.65	55.96	56.71	0.75	1.3	56.98	56.78	55.90	59.38	60.62	-4.06	-1.83	-2.20
Jet/Kerosene	79.93	73.89	74.01	0.12	0.2	73.25	72.82	74.58	78.80	79.42	18.22	16.09	15.09
ULSD	77.31	74.92	74.53	-0.40	-0.5	74.23	73.70	74.49	77.92	77.04	15.60	17.13	15.61
Gasoil .2%	75.50	72.03	71.44	-0.59	-0.8	71.74	70.68	71.05	74.33	73.89	13.79	14.24	12.53
LSFO 1%	43.71	39.42	40.23	0.82	2.1	39.46	40.65	40.37	40.29	39.20	-18.00	-18.38	-18.68
HSFO 3.5%	42.41	40.92	40.35	-0.57	-1.4	41.84	40.20	39.49	39.88	39.98	-19.30	-16.87	-18.57
Mediterranean, FOB Cargoes											**Differential to Urals**		
Premium 50 ppm	64.09	60.68	62.83	2.16	3.6	63.09	62.16	62.71	65.62	65.71	4.62	5.00	6.88
Naphtha	56.55	55.08	55.78	0.70	1.3	56.00	55.80	54.97	58.65	59.96	-2.92	-0.60	-0.17
Jet Aviation fuel	78.14	72.91	72.71	-0.19	-0.3	71.45	71.76	73.64	77.32	78.20	18.67	17.23	16.76
Gasoil .2%	75.92	72.38	71.78	-0.60	-0.8	71.84	70.94	71.80	75.12	75.03	16.45	16.71	15.83
LSFO 1%	42.56	39.93	39.81	-0.12	-0.3	40.43	39.74	39.55	40.01	40.00	-16.91	-15.74	-16.14
HSFO 3.5%	41.41	39.58	39.09	-0.49	-1.2	40.36	38.73	38.46	39.09	38.93	-18.06	-16.10	-16.86
New York Harbour, Barges											**Differential to WTI**		
Super Unleaded	72.83	69.65	74.89	5.23	7.5	72.47	75.94	77.50	79.78	77.11	9.09	10.83	15.86
Unleaded	66.77	63.90	66.79	2.89	4.5	65.77	66.12	68.40	71.31	68.97	3.03	5.08	7.76
Jet/Kerosene	77.65	74.45	74.38	-0.07	-0.1	73.99	72.78	75.24	79.20	79.63	13.91	15.63	15.35
No. 2 (Heating Oil)	71.10	69.04	69.30	0.27	0.4	69.56	67.83	68.82	73.36	73.04	7.36	10.21	10.28
LSFO 1%	39.91	39.34	42.48	3.14	8.0	43.05	42.54	41.82	42.16	41.10	-23.83	-19.48	-16.55
No. 6 3%	39.97	39.98	41.29	1.31	3.3	42.54	40.46	39.70	40.82	39.56	-23.77	-18.84	-17.74
Singapore, Cargoes											**Differential to Dubai**		
Premium Unleaded	65.86	61.83	62.89	1.06	1.7	62.11	62.37	63.66	66.40	67.03	6.04	5.41	6.17
Naphtha	57.32	56.03	57.66	1.63	2.9	57.35	57.62	57.73	60.30	61.95	-2.49	-0.39	0.95
Jet/Kerosene	80.55	74.02	73.63	-0.39	-0.5	73.19	73.39	73.85	76.78	79.26	20.73	17.60	16.91
Gasoil .5%	75.85	71.17	69.99	-1.18	-1.7	69.03	69.88	70.68	71.80	69.65	16.03	14.75	13.27
LSWR Cracked	44.45	40.14	39.31	-0.83	-2.1	39.71	39.24	38.69	41.10	43.50	-15.37	-16.28	-17.41
HSFO 180 CST	44.29	44.21	42.02	-2.19	-4.9	43.86	41.28	40.84	41.25	42.97	-15.52	-12.22	-14.70
HSFO 380 CST 4%	44.27	44.44	41.76	-2.68	-6.0	43.90	41.03	40.30	40.63	42.05	-15.55	-11.98	-14.95

The discount of fuel oil to benchmark crudes widened again in most regions as refiners increased output after maintenance and demand remained weak. China, which usually absorbs a lot of the excess product, imported less fuel oil in November. Despite a decline in the spread between Rotterdam and Singapore prices making the arbitrage uneconomical, BP reportedly fixed at least three VLCCs to move fuel oil to Asia. Western arrivals in Singapore in December are expected to be in the region of 2.2-2.3 million tonnes, around a third higher than in November. Independently-held Singapore residue stocks rose 1.37 mb or 10% over the month, while in the Amsterdam-Rotterdam-Antwerp (ARA) region, they fell by a similar amount. The exception to fuel oil's weakness was the price of low-sulphur waxy residual (LSWR), which rose in late November and early December. Supplies tightened after Indonesia brought a hydrocracker back online at its Dumai refinery.

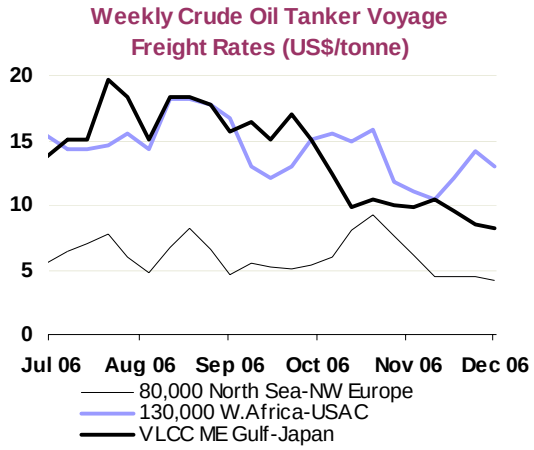
End-User Product Prices in November

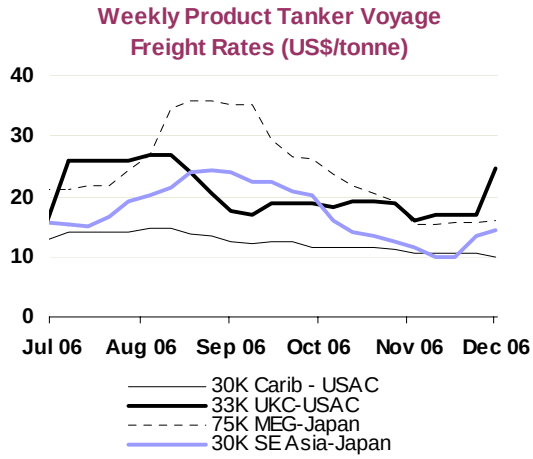
Despite previous declines in product prices, middle-distillate tightness kept November end-user diesel and heating oil prices flat compared with October, while gasoline prices weakened only marginally. US consumers paid $0.67/litre for diesel in November, as they did in October, while prices at the gasoline pump fell by 1.3% month-on-month to $0.59/litre. Without tax and in dollar terms, diesel and heating oil prices also remained relatively flat in other OECD countries in November, while gasoline prices fell by up to 2%. Exceptions were in Japan, where all three products lost between 1% and 4% month-on-month, and Germany where heating oil prices dropped 3.2% in November. Comparative low-sulphur fuel oil prices in OECD Europe rose by up to 3% in November, but decreased by 0.9% in Japan.

Freight

Reduced OPEC exports prompted further counter-seasonal declines in crude freight rates from the Middle East Gulf in November. VLCC spot charter rates to Japan are now at a quarter of last year's rates and corresponding front-quarter freight futures recently hit a four-year low. In a depressed dirty sector, only Suezmax rates in the Atlantic basin showed any firmness, temporarily buoyed by protracted US refinery maintenance which boosted demand for vessels to import light, sweet crudes. Clean tanker rates lost ground in November until some Asian product trade activity spurred an end-month rebound.

A November slump in Middle East Gulf crude rates suggested slackening export activity as OPEC supply cuts took effect. Tanker movements reports confirmed this, showing steep declines in sailings from the region in November and significantly reduced volumes of oil in transit. The resultant surplus of vessels for hire in the region dragged November VLCC rates to Japan down by $2/tonne to finish around $8/tonne. Corresponding rates to the US Gulf lost slightly less than $2/tonne and ended the month around $16/tonne.





Declining VLCC rates in November are unusual. Even ignoring the exceptional fourth quarters in 2004 and 2005, dirty shipping rates normally rise as refiners build crude stocks ahead of winter. This year, busy summer flows left third-quarter OECD crude stocks high, which has helped undermine crude vessel demand in the fourth quarter. Nonetheless, OECD product stocks dropped to seasonal levels in October and preliminary November data showed further draws in the US. A cold snap in

consumer regions would not only push refiners to raise utilisation rates but would also increase competition for spot crude cargoes. This could have trade implications which support crude freight rates especially if long-haul arbitrage windows are forced open.

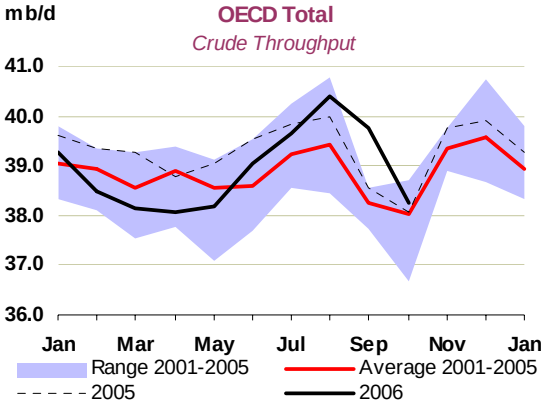
A slow restart after US refinery maintenance lent some late-November support to dirty freight rates in the Atlantic basin. Upgrading units were particularly slow to return, boosting interest in transportation for million-barrel cargoes of distillate-rich Atlantic crudes. West Africa to US Atlantic Suezmax rates rose by $4/tonne in the second half of November to $14/tonne but lost most of these gains in early December. Caribbean Aframax rates weakened throughout November and briefly fell below $10/tonne in the first week of December after highs of over $14/tonne in October. Heavy maintenance to complex refinery units in the US Gulf deflated demand for transportation for low-quality crude from Mexico and Venezuela. Mediterranean rates fared little better.

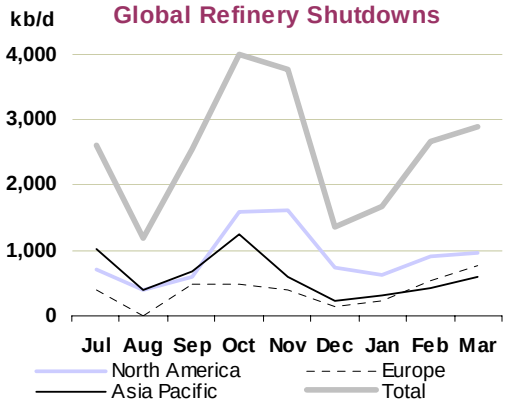
Clean tanker rates rebounded at the end of November after falling to multi-month lows in the first half of the month. Maintenance at exporting refineries and importing petrochemical plants had stemmed product flows in Asia, reducing clean tanker demand. Rising Indian naphtha exports have also diluted large product tanker rates from the Middle East by offering an alternative naphtha supply option but exporting in smaller product vessels. Transatlantic product trade was tempered by mild weather, despite heavy refinery maintenance. However, forecasts of colder US temperatures, a couple of trans-Pacific charters, diversions of Indian naphtha to the domestic power sector and draws in Japanese kerosene stocks all combined to prop up clean rates as November ended. Singapore to Japan rates for 30,000-tonne clean cargoes, which reached $24/tonne in August, hit a low of $11.50/tonne mid-November before rebounding back over $20/tonne at the start of December.

REFINING

Summary

- **OECD refinery throughput** declined by 1.5 mb/d to 38.3 mb/d in October. The seasonal peak in OECD refinery maintenance curtailed crude runs during the month. Nonetheless, crude runs were still above October 2005's hurricane-disrupted level, as gains in the US were only partly offset by declines in Europe and the Pacific.
- **OECD refinery runs** are expected to have recovered by 0.6 mb/d in November. This rebound in throughputs is lower than previously forecast as unplanned shutdowns and previously unannounced maintenance have increased our estimates for offline capacity. The increase in runs is biased towards the Pacific with small contributions from Europe and North America. December crude runs should show a marked improvement over November.
- **OECD refinery yield data** for September indicate that distillate production reached record seasonal levels. Refiners continue to maximise diesel production, at the expense of jet/kerosene production, with strong growth particularly noticeable in the US. Gasoline yields fell from August levels as maintenance of upgrading capacity impacted yields.
- **Global offline capacity** is estimated to have decreased from 4.0 mb/d in October to 3.8 mb/d in November. Offline refinery capacity in the OECD is projected to decline from the October peak of 2.9 mb/d to 2.3 mb/d in November and to 1.1 mb/d in December. The first quarter of next year is forecast to see an increase in maintenance work from December levels.





Refinery Throughput

OECD refinery crude runs in October were an estimated 38.27 mb/d, as autumn refinery maintenance increased in line with forecasts. Heavier maintenance was seen in all three OECD regions month-on-month, although increases in the US and Japan were particularly heavy. The 1.47 mb/d decline in runs from September's downwardly revised (-52 kb/d) figure of 39.74 mb/d was weighted towards North America, which accounted for half of this decline. Average October OECD throughputs were only 186 kb/d above October 2005's level, as North America's increase of 1.37 mb/d was largely offset by year-on-year declines in Europe (-635 kb/d) and the Pacific (-550 kb/d). The decline from October 2005's level in Europe and the Pacific is perhaps more a reflection of last year's high baseline as refiners responded to the disruption caused by Hurricanes Katrina and Rita. Furthermore, the recent weak margin environment is also likely to be partly responsible. Hydroskimming margins in Europe and Asia are more than $5/bbl weaker than a year ago, averaging less than -$2/bbl over the course of October. As a result of lower throughputs, average OECD capacity utilisation decreased to 84.9% in October, from 88.2% in September, on a par with last October's 85.2%.

Weekly data for November indicate that crude runs in Japan recovered during the month as refiners returned from maintenance, reaching 4.1 mb/d in late November. However, the expected recovery in US throughputs failed to materialise for two reasons. Firstly, several refineries encountered problems with upgrading and hydrotreating units which curtailed crude runs. Secondly, higher-than-expected maintenance in the US Midwest and West Coast regions cut reported runs, thus delaying the projected rebound in crude throughputs by a further month. OECD December crude runs are expected to

register an increase of just over 1 mb/d from November's level, before refiners start a new round of maintenance in the first quarter of 2007. In December, economic run cuts totalling some 100 kb/d have been reinstated in Korea, due to high stocks and poor margins. Conversely, Japanese refiner Nippon Oil is planning to increase runs, subject to sustained product demand. Furthermore, reports suggest that some European refiners are also considering run cuts due to the weaker margin environment and the particularly mild weather which has curtailed demand for gasoil in some countries.

Refinery Crude Throughput and Utilisation in OECD Countries

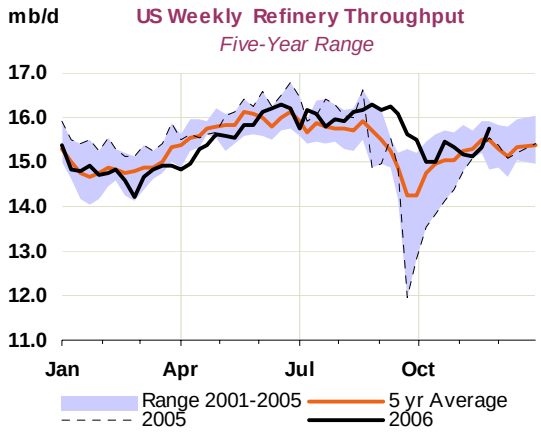
	million barrels per day						*Change from*		Utilisation rate[2]	
	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	*Sep 06*	*Oct 05*	Oct 06	Oct 05
OECD North America										
US[3]	15.52	15.84	15.67	15.79	15.74	15.06	-0.67	1.42	86.60	79.65
Canada	1.49	1.73	1.88	1.92	1.81	1.81	0.00	-0.01	89.86	90.12
Mexico	1.22	1.22	1.25	1.22	1.18	1.14	-0.04	-0.04	67.58	71.96
Total	18.22	18.79	18.79	18.93	18.73	18.01	-0.71	1.37	85.39	79.88
OECD Europe										
France	1.49	1.64	1.72	1.81	1.86	1.74	-0.12	0.17	87.83	80.54
Germany	2.37	2.34	2.37	2.45	2.18	2.19	0.01	-0.19	90.04	96.80
Italy	1.50	1.87	1.87	1.93	1.88	1.90	0.02	-0.15	81.73	88.20
Netherlands	0.92	0.99	0.94	0.98	1.03	1.02	-0.01	-0.01	83.07	83.27
Spain	1.22	1.26	1.19	1.24	1.22	1.17	-0.05	-0.12	91.88	101.68
UK	1.59	1.60	1.61	1.68	1.64	1.65	0.01	-0.05	88.12	93.52
Other OECD Europe	4.21	4.27	4.19	4.16	4.12	3.98	-0.14	-0.28	82.52	91.26
Total	13.31	13.97	13.90	14.25	13.94	13.64	-0.29	-0.64	85.66	90.82
OECD Pacific										
Japan	3.50	3.51	3.84	4.09	3.92	3.50	-0.42	-0.58	74.86	86.64
Korea	2.52	2.14	2.43	2.41	2.46	2.42	-0.04	0.03	94.10	92.74
Other OECD Pacific	0.62	0.65	0.70	0.72	0.70	0.69	-0.01	0.00	85.66	80.80
Total	6.64	6.30	6.97	7.22	7.08	6.61	-0.47	-0.55	82.09	87.96
OECD Total	38.18	39.06	39.66	40.40	39.74	38.27	-1.47	0.19	84.90	85.20

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

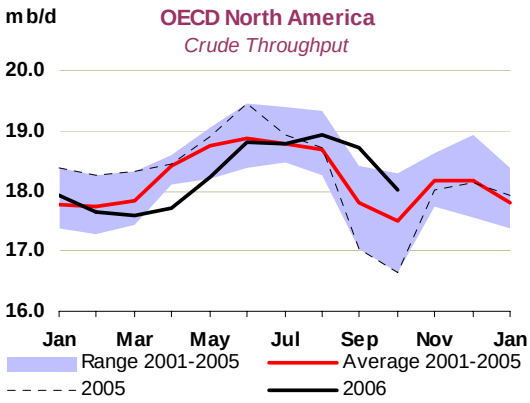
OECD North America

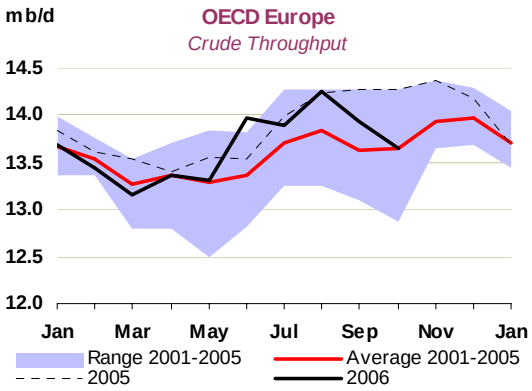
Provisional data for October show that North American crude throughputs fell by 711 kb/d month-on-month to an estimated 18.01 mb/d. The decline from September's level of 18.73 mb/d was the result of lower throughputs in the US (-673 kb/d) and Mexico (-41 kb/d). Crude runs registered a 1.37 mb/d gain over October 2005 as US refiners suffered no interruptions from hurricanes which markedly affected last year's activities. Consequently, North American capacity utilisation was 85.4% in October, down from September's 88.8%, but up from last year's 79.9%.

US throughputs averaged 15.06 mb/d in October, a decline of 673 kb/d from September. Refiners made use of the post driving-season lull in demand for gasoline to undertake maintenance work on catalytic cracking and alkylation capacity. The reduced availability of upgrading capacity in October led to high imports of West African crudes, as refiners moved to lighten and sweeten their crude slate during their turnaround period and minimise residue production. Despite the decline in crude runs, they remained 1.42 mb/d above the October 2005 level. Average capacity utilisation fell to 86.6% from September's 90.5%. Canadian crude runs are estimated to have been 1.81 mb/d in October, broadly unchanged from September's estimate. Maintenance work at Suncor's Sarnia and Irving Oil's St John refineries ended, while Shell's Ontario plant started a turnaround. Mexican October crude runs are estimated to have declined 41 kb/d from September's level to 1.14 mb/d, their lowest level in the last two years.



Weekly US data indicate that November crude throughputs were slightly higher on average at 15.14 mb/d. Crude runs increased at the end of the month, rising by almost 500 kb/d from the mid-month low of 14.93 mb/d. Crude runs were particularly weak in the US Midwest and West Coast. In the US Midwest, crude runs reached an 18-month low, with maintenance work reported at ConocoPhillips' Ponca City refinery, Valero's Lima plant, BP's Toledo and Whiting operations, Flint Hill Resources' Pine Bend and Citgo's Lemont facilities. Similarly, on the West Coast, crude runs reached their lowest level in two years and were within 155 kb/d of the five-year low of 2.18 mb/d. The shutdown of BP's Carson refinery, plus work at Tesoro's Anacortes refinery, were largely responsible for the decline in crude runs. Some reports suggest that operational problems at ConocoPhillips and ExxonMobil plants in California also contributed to the lower crude runs.

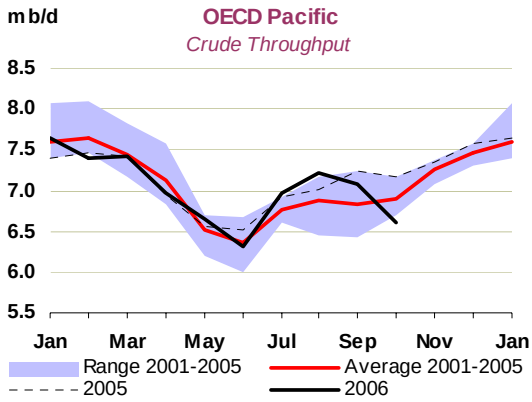


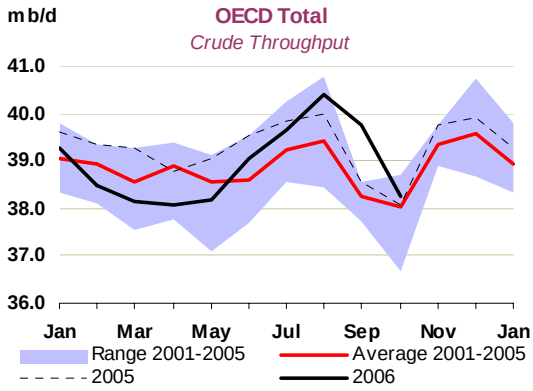


OECD Europe

European crude throughputs averaged 13.64 mb/d in October, a decrease of 292 kb/d from September's downwardly revised (-106 kb/d) level of 13.94 kb/d, and 635 kb/d below October 2005's level. The decline was broad-based, although French crude runs fell more than most, down 122 kb/d. While the possibility remains that some of the work we had anticipated for September was delayed until October, it should be noted that refining margins were -$3/bbl for Urals hydroskimming in the Mediterranean and therefore likely to have led to some refiners curtailing throughputs. Crude runs should pick up in November, despite the reported shutdown of ExxonMobil's 250 kb/d Antwerp facility and problems at Neste's Porvoo catalytic cracker.

Early December has seen renewed weakness in margins, with Urals hydroskimming falling to -$4.34/bbl in the Mediterranean, suggesting that hydroskimming refineries who have not already done so will seek to minimise runs. During December there is little evidence of planned refinery maintenance, suggesting runs should increase from November's level, notwithstanding the possibility of run cuts.



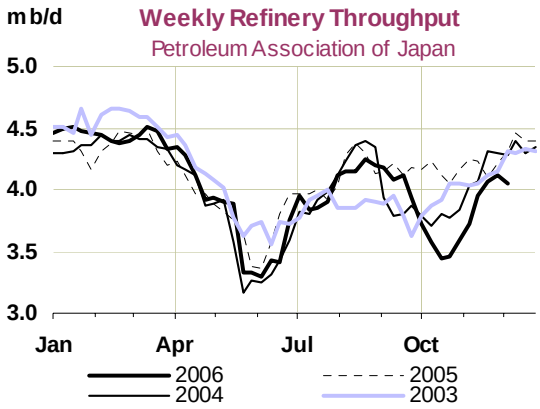


OECD Pacific

OECD Pacific crude throughputs declined by 470 kb/d in October to average 6.61 mb/d. This represents a fall from the upwardly revised (+58 kb/d) September estimate of 7.08 mb/d and is 550 kb/d below October 2005's level. The decrease was centred in Japan where runs fell by 424 kb/d

to average 3.50 mb/d from September's upwardly revised (+52 kb/d) level of 3.92 mb/d. Korean runs fell by 38 kb/d to average 2.42 mb/d. The seasonal peak in refinery maintenance ahead of winter heating-related demand pushed runs lower. In both countries, reports suggest economic run cuts of around 40 kb/d further reduced crude runs.

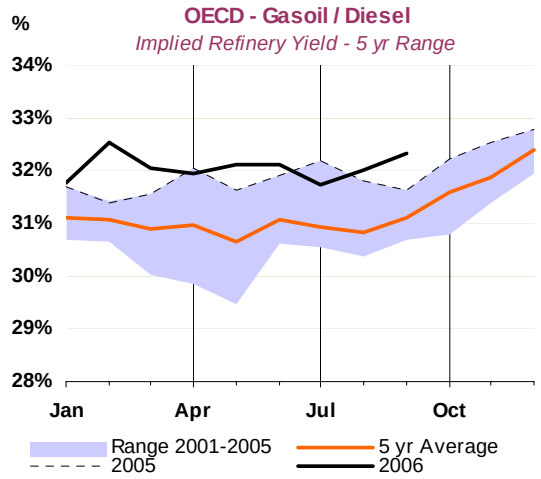
Weekly data from the Petroleum Association of Japan show that crude runs recovered in November as refineries returned from maintenance shutdowns. Runs increased from 3.7 mb/d in early November to 4.1 mb/d by the end of the month. The closure in early December of a 110 kb/d crude unit at Cosmo's Chiba refinery for unplanned maintenance through to the end of January is the presumable cause of the recent drop in throughputs. Nippon Oil, which operates just over a quarter of Japan's refining capacity, recently cancelled its planned voluntary run cuts for December. This should increase runs by around 137 kb/d to 1.08 mb/d for the month. The increase in runs is subject to demand for kerosene remaining strong enough to absorb product supplies, with the further proviso that weak demand, due to warm weather, and rising kerosene stocks could lead to the reimposition of run cuts later in the month.

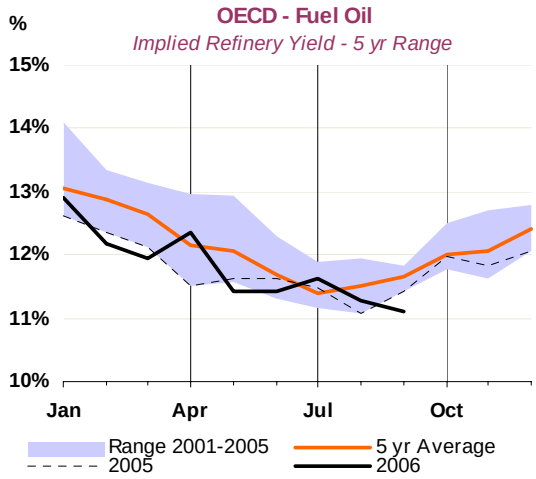


Conversely, Korean refiners have reimposed voluntary run cuts for December, having removed them in November. Reports indicate that refiners cutting runs include S-Oil, which usually does not need to reduce throughputs as it operates the most sophisticated refinery in Korea. S-Oil's refinery has significantly more upgrading capacity relative to its crude distillation capacity than other Korean refiners and hence a lower yield of fuel oil. This suggests that the cuts are aimed at reducing stock levels of kerosene rather than as a result of deteriorating refining economics.

OECD Refinery Yields

OECD refinery yield data for September show refiners continue to raise diesel/gasoil yields in response to strong demand growth. Regionally, growth was most pronounced in North America, when measured against last year's hurricane-affected yields and the five-year average. Unusually, the diesel/gasoil yield in North America is now above the OECD Pacific's. In Europe, rising diesel demand has pushed refiners to raise distillate yields which, at 40.8%, are the highest of the three OECD regions.

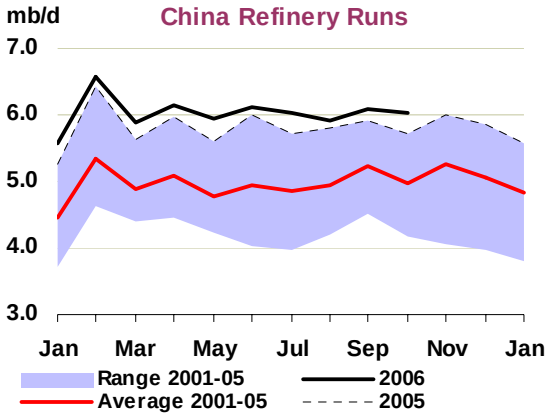


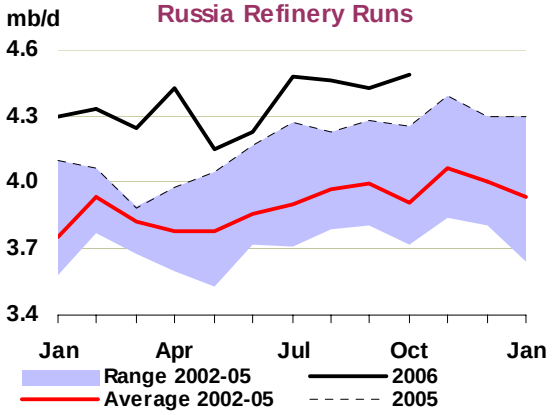


Dramatically weaker gasoline cracks during September encouraged refiners to reduce gasoline yields in favour of jet/kerosene. This switch was evident in the US, Japan and Korea, where the start of maintenance on upgrading capacity will have reduced gasoline yields. However, refiners in several European countries raised gasoline yields, despite the weaker gasoline cracks. Fuel oil yields have dropped below their five-year range. The deterioration in fuel oil cracks, which remain heavily negative, should encourage refiners to minimise fuel oil production. The increase in Pacific fuel oil yields during September is linked to the shutdown of upgrading capacity, and the crude slate choices made by the regions refiners, i.e. heavy crude grades were discounted to more than offset the higher fuel oil yield.

Non-OECD Throughput

Chinese crude runs decreased by 60 kb/d in October to an average of 6.04 mb/d, representing growth of 5.9% from October 2005. The decline was less than the 80 kb/d drop forecast last month, despite planned maintenance at Sinopec's Zhenhai plant, which is estimated to have cut throughputs by almost 100 kb/d. Crude runs at Sinopec and PetroChina are expected to be broadly flat in December compared with both October and November. Indian data for October show a further rise in crude runs to 2.92 mb/d. November throughputs are expected to have received a boost from Essar's Vadinar refinery which entered commercial service in November and has started exports of naphtha to Asia.

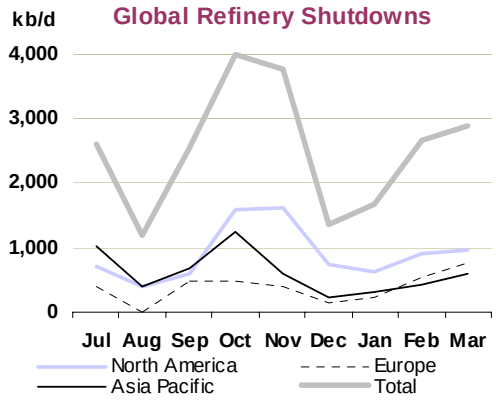


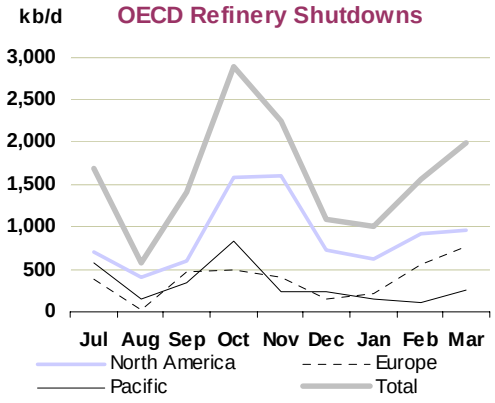


Russian crude runs increased to a new (post-Soviet era) record in October of 4.49 mb/d from September's level of 4.43 mb/d. The Russian export tax changes introduced on 1 October appear to have increased the incentive for Russian oil companies to refine crude domestically and export products. Lower export taxes introduced in December may have marginally increased incentives to export crudes, but it would appear that refined product shipments are still advantaged under the Russian tax system.

Offline Refinery Capacity

Fourth-quarter estimates for offline capacity have increased for refiners both in the OECD and globally. Higher offline capacity in North America accounts for most of the increase in the OECD, while increases in Asia are largely responsible for the non-OECD increase. The seasonal structure of offline capacity remains unaltered with an October peak of some 4 mb/d offline globally. However, the subsequent sharp decline in offline capacity which we expected during November did not materialise, due to unplanned outages and previously unannounced maintenance. Consequently, we have revised up November's estimate from 2.6 mb/d to 3.8 mb/d, with December currently expected to be 1.4 mb/d. The recovery in crude runs previously expected in November should therefore emerge in December, as heating-related demand picks up, despite the warm start to the winter heating season. For the OECD, we have revised October up to 2.9 mb/d from 2.7 mb/d, November is revised to 2.3 mb/d and December 1.1 m/bd.





We have rolled out our capacity shutdown forecasts until the end of the first quarter, based on average seasonal levels of maintenance activity. We expect to revise these forecasts as more data on planned maintenance activity become available in the coming weeks.

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

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	24.5	25.4	25.6	25.3	25.6	25.5	25.5	25.1	25.1	25.5	26.0	25.4	25.6	25.4	25.9	26.1	25.8
Europe	15.4	15.5	15.6	15.2	15.6	15.7	15.5	15.8	15.0	15.4	15.7	15.5	15.6	15.1	15.5	15.6	15.4
Pacific	8.6	8.5	9.4	8.1	8.1	8.8	8.6	9.3	7.9	7.9	8.8	8.5	9.2	7.8	8.0	8.8	8.4
Total OECD	48.6	49.3	50.7	48.6	49.2	50.0	49.6	50.2	48.0	48.8	50.5	49.4	50.4	48.3	49.4	50.5	49.6
NON-OECD DEMAND																	
FSU	3.6	3.8	3.8	3.7	3.8	3.9	3.8	3.9	3.7	3.9	4.3	4.0	4.0	3.8	4.0	4.2	4.0
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	5.5	6.4	6.6	6.4	6.6	6.8	6.6	6.8	7.1	6.9	7.2	7.0	7.1	7.4	7.3	7.6	7.4
Other Asia	8.1	8.6	8.9	8.9	8.6	8.7	8.8	8.9	8.9	8.7	8.9	8.9	9.1	9.1	9.0	9.2	9.1
Latin America	4.7	5.0	5.0	5.1	5.2	5.1	5.1	5.1	5.2	5.3	5.2	5.2	5.2	5.3	5.4	5.3	5.3
Middle East	5.4	5.8	6.0	6.1	6.4	6.0	6.1	6.3	6.4	6.7	6.4	6.5	6.7	6.8	6.8	6.9	6.8
Africa	2.7	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	30.7	33.1	33.9	33.9	34.1	34.1	34.0	34.6	35.0	35.1	35.7	35.1	35.9	36.2	36.1	37.0	36.3
Total Demand[1]	79.3	82.4	84.5	82.4	83.3	84.1	83.6	84.8	83.0	83.9	86.2	84.5	86.3	84.5	85.5	87.5	85.9
OECD SUPPLY																	
North America	14.6	14.6	14.5	14.7	13.7	13.8	14.1	14.2	14.2	14.3	14.6	14.3	14.8	14.4	14.3	14.5	14.5
Europe	6.3	6.1	5.9	5.7	5.4	5.5	5.6	5.5	5.1	4.9	5.2	5.2	5.4	5.2	5.1	5.4	5.3
Pacific	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Total OECD	21.6	21.2	20.9	20.9	19.7	19.8	20.3	20.2	19.8	19.9	20.4	20.1	20.8	20.2	20.1	20.6	20.4
NON-OECD SUPPLY																	
FSU	10.3	11.2	11.5	11.5	11.7	11.9	11.6	11.7	12.0	12.2	12.3	12.1	12.3	12.5	12.6	12.8	12.5
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.4	3.5	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.8	3.7
Other Asia	2.6	2.7	2.7	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Latin America	4.0	4.1	4.2	4.4	4.3	4.3	4.3	4.4	4.4	4.4	4.5	4.4	4.6	4.6	4.6	4.7	4.6
Middle East	2.0	1.9	1.9	1.9	1.9	1.8	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Africa	3.0	3.4	3.5	3.6	3.8	3.9	3.7	3.9	3.9	4.0	4.1	4.0	4.2	4.4	4.6	4.7	4.5
Total Non-OECD	25.6	27.0	27.5	27.7	28.2	28.4	28.0	28.4	28.6	28.9	29.2	28.8	29.4	29.7	30.1	30.5	29.9
Processing Gains[2]	1.8	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Other Biofuels[3]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Total Non-OPEC[4]	49.1	50.1	50.5	50.6	49.8	50.2	50.3	50.7	50.5	50.9	51.7	50.9	52.5	52.2	52.5	53.4	52.6
OPEC																	
Crude[5]	27.1	28.9	29.3	29.7	30.0	29.9	29.7	29.9	29.8	30.0							
NGLs	3.7	4.2	4.4	4.4	4.5	4.5	4.5	4.6	4.7	4.7	4.7	4.7	4.8	4.8	4.9	5.0	4.9
Total OPEC	30.8	33.1	33.7	34.2	34.5	34.5	34.2	34.5	34.5	34.7							
Total Supply[6]	79.8	83.2	84.1	84.8	84.3	84.7	84.5	85.2	84.9	85.5							
STOCK CHANGES AND MISCELLANEOUS																	
Reported OECD																	
Industry	0.1	0.1	-0.1	0.9	0.2	-0.5	0.1	0.0	0.6	1.2							
Government	0.2	0.1	0.1	0.3	0.0	-0.1	0.1	0.0	0.1	0.0							
Total	0.3	0.2	0.1	1.2	0.2	-0.6	0.2	0.0	0.7	1.2							
Floating Storage/Oil in Transit	0.2	0.0	-0.4	0.1	0.0	0.1	-0.1	0.1	-0.1	0.3							
Miscellaneous to balance[7]	0.1	0.6	-0.1	1.0	0.9	1.1	0.7	0.2	1.3	0.1							
Total Stock Ch. & Misc	0.6	0.8	-0.4	2.4	1.0	0.6	0.9	0.4	1.9	1.6							
Memo items:																	
Call on OPEC crude + Stock ch.[8]	26.5	28.1	29.7	27.4	29.0	29.3	28.8	29.5	27.9	28.4	29.8	28.9	29.0	27.5	28.1	29.1	28.4
Total Demand ex. FSU	75.7	78.6	80.7	78.7	79.5	80.2	79.8	80.9	79.3	80.0	81.9	80.5	82.3	80.7	81.5	83.3	81.9
Total demand exc. FSU (% ch)[9]	1.9	3.9	2.4	1.6	1.6	0.2	1.5	0.3	0.8	0.6	2.1	0.9	1.6	1.7	1.9	1.7	1.7

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 Biofuels from sources outside Brazil and US.
4 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
5 As of the March 2006 OMR, Venezuelan Orinoco heavy crude production is included within Venezuelan crude estimates. Orimulsion fuel remains within the OPEC NGL & non-conventional category, but Orimulsion production will reportedly cease from January 2007.
6 Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply
7 Includes changes in non-reported stocks in OECD and non-OECD areas
8 Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs
9 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)

	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
OECD DEMAND																	
North America	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-	-	-0.1	-
NON-OECD DEMAND																	
FSU	-	-	-	-	-	-	-	-	-	0.1	0.1	-	0.1	-	-	0.1	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-	-	-0.1	-0.1	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	-	-
Total Demand	-	-	-	-	-	-	-	-	-	0.1	-0.1	-	-0.1	-	0.1	-0.1	-
OECD SUPPLY																	
North America	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	0.1	-
Europe	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-0.1	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total OECD	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	0.1	-
NON-OECD SUPPLY																	
FSU	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-0.1	-	-	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-0.1	-	-0.1	-0.1	-0.1	-0.1	-0.1
Total Non-OECD	-	-	-	-	-	-	-	-	-	-0.1	-	-	-0.1	-0.1	-0.1	-	-0.1
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Biofuels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OPEC	-	-	-	-	-	-	-	-	-	-0.1	-	-	-0.2	-0.2	-0.1	-	-0.1
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	-	-0.2							
Total Stock Ch. & Misc	-	-	-	-	-	-	-	-0.1	-	-0.2							
Memo items:																	
Call on OPEC crude + Stock ch.	-	-	-	-	-	-	-	-	-	0.1	-	-	0.1	0.2	0.2	-0.1	0.1
Total Demand ex. FSU	-	-	-	-	-	-	-	-	-	-	-0.2	-	-0.2	-	-	-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

	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007
Demand (mb/d)																
North America	25.37	25.61	25.33	25.58	25.48	25.50	25.12	25.09	25.54	25.98	25.44	25.61	25.41	25.92	26.08	25.76
Europe	15.48	15.62	15.17	15.56	15.69	15.51	15.77	15.03	15.40	15.68	15.47	15.60	15.06	15.50	15.64	15.45
Pacific	8.49	9.45	8.06	8.07	8.79	8.59	9.30	7.87	7.90	8.82	8.47	9.15	7.82	8.00	8.79	8.44
Total OECD	49.35	50.68	48.55	49.22	49.96	49.60	50.19	47.99	48.84	50.48	49.37	50.36	48.30	49.42	50.51	49.65
FSU	3.76	3.82	3.71	3.79	3.89	3.80	3.88	3.71	3.94	4.28	3.95	4.02	3.77	3.97	4.18	3.99
Europe	0.70	0.77	0.71	0.66	0.72	0.72	0.79	0.72	0.67	0.73	0.73	0.79	0.74	0.68	0.74	0.74
China	6.42	6.56	6.45	6.63	6.77	6.60	6.75	7.05	6.91	7.19	6.98	7.12	7.39	7.33	7.58	7.35
Other Asia	8.62	8.90	8.85	8.65	8.72	8.78	8.88	8.93	8.71	8.95	8.87	9.06	9.13	8.95	9.18	9.08
Latin America	4.96	4.96	5.12	5.18	5.10	5.09	5.07	5.20	5.31	5.22	5.20	5.17	5.30	5.43	5.32	5.31
Middle East	5.79	5.96	6.10	6.36	6.05	6.12	6.29	6.43	6.70	6.38	6.45	6.69	6.79	6.78	6.93	6.80
Africa	2.79	2.90	2.91	2.79	2.90	2.88	2.97	2.98	2.86	2.97	2.94	3.05	3.04	2.92	3.05	3.01
Total Non-OECD	33.05	33.87	33.86	34.06	34.15	33.99	34.62	35.03	35.09	35.72	35.12	35.91	36.16	36.07	36.97	36.28
World	82.40	84.55	82.42	83.28	84.11	83.59	84.81	83.03	83.93	86.19	84.49	86.27	84.46	85.49	87.48	85.93
of which:																
US50	*20.73*	*20.84*	*20.65*	*20.92*	*20.79*	*20.80*	*20.49*	*20.60*	*20.86*	*21.23*	*20.80*	*20.88*	*20.80*	*21.21*	*21.24*	*21.03*
Euro4	*8.27*	*8.25*	*7.95*	*8.26*	*8.21*	*8.17*	*8.42*	*7.88*	*8.07*	*8.18*	*8.14*	*8.25*	*7.86*	*8.13*	*8.15*	*8.10*
Japan	*5.29*	*6.00*	*4.94*	*5.03*	*5.46*	*5.35*	*5.96*	*4.78*	*4.81*	*5.45*	*5.25*	*5.75*	*4.70*	*4.86*	*5.39*	*5.17*
Korea	*2.16*	*2.40*	*2.07*	*2.01*	*2.23*	*2.18*	*2.28*	*2.03*	*2.02*	*2.27*	*2.15*	*2.32*	*2.04*	*2.05*	*2.29*	*2.18*
Mexico	*2.00*	*2.04*	*2.11*	*2.06*	*2.10*	*2.08*	*2.08*	*2.02*	*1.99*	*2.09*	*2.04*	*2.09*	*2.06*	*2.07*	*2.15*	*2.09*
Canada	*2.30*	*2.36*	*2.24*	*2.25*	*2.23*	*2.27*	*2.18*	*2.14*	*2.34*	*2.29*	*2.24*	*2.26*	*2.21*	*2.29*	*2.32*	*2.27*
Brazil	*2.15*	*2.12*	*2.18*	*2.25*	*2.21*	*2.19*	*2.18*	*2.19*	*2.31*	*2.26*	*2.23*	*2.22*	*2.24*	*2.35*	*2.30*	*2.28*
India	*2.57*	*2.72*	*2.59*	*2.47*	*2.56*	*2.59*	*2.74*	*2.70*	*2.50*	*2.65*	*2.64*	*2.79*	*2.76*	*2.57*	*2.70*	*2.70*
Annual Change (% per annum)																
North America	3.5	1.4	1.0	0.5	-0.9	0.5	-1.9	-0.9	-0.2	2.0	-0.3	2.0	1.3	1.5	0.4	1.3
Europe	0.3	0.7	0.7	0.6	-1.3	0.2	1.0	-0.9	-1.0	-0.1	-0.3	-1.1	0.2	0.6	-0.3	-0.1
Pacific	-1.6	2.3	2.3	-0.5	0.6	1.2	-1.6	-2.4	-2.2	0.3	-1.4	-1.6	-0.5	1.2	-0.3	-0.3
Total OECD	1.5	1.3	1.2	0.4	-0.8	0.5	-1.0	-1.2	-0.8	1.0	-0.5	0.4	0.6	1.2	0.1	0.5
FSU	4.7	8.7	-0.2	0.0	-2.7	1.3	1.6	-0.1	3.9	10.1	4.0	3.6	1.6	0.9	-2.5	0.8
Europe	2.2	2.1	2.1	1.7	1.6	1.9	2.5	1.4	1.6	1.6	1.8	0.7	1.7	1.7	1.4	1.4
China	15.8	4.4	-1.3	5.4	2.7	2.8	2.9	9.4	4.2	6.1	5.6	5.4	4.8	6.1	5.4	5.4
Other Asia	6.8	4.3	2.4	2.5	-1.6	1.8	-0.2	0.9	0.7	2.6	1.0	2.1	2.2	2.8	2.6	2.4
Latin America	5.8	3.1	3.0	2.4	2.1	2.7	2.3	1.6	2.4	2.3	2.1	1.9	2.0	2.3	2.0	2.1
Middle East	6.9	5.7	5.8	5.6	5.3	5.6	5.4	5.4	5.4	5.6	5.4	6.5	5.6	1.2	8.6	5.4
Africa	4.1	3.3	3.3	2.5	2.7	3.0	2.4	2.3	2.4	2.4	2.4	2.7	2.0	2.4	2.5	2.4
Total Non-OECD	7.7	4.7	2.1	3.3	1.3	2.8	2.2	3.5	3.0	4.6	3.3	3.7	3.2	2.8	3.5	3.3
World	3.9	2.7	1.6	1.6	0.1	1.4	0.3	0.7	0.8	2.5	1.1	1.7	1.7	1.9	1.5	1.7
Annual Change (mb/d)																
North America	0.85	0.35	0.26	0.13	-0.23	0.13	-0.49	-0.23	-0.04	0.50	-0.06	0.49	0.32	0.38	0.10	0.32
Europe	0.05	0.11	0.11	0.09	-0.20	0.03	0.15	-0.14	-0.16	-0.01	-0.04	-0.17	0.03	0.10	-0.04	-0.02
Pacific	-0.14	0.21	0.18	-0.04	0.06	0.10	-0.15	-0.19	-0.18	0.03	-0.12	-0.14	-0.04	0.10	-0.02	-0.03
Total OECD	0.75	0.67	0.56	0.19	-0.38	0.25	-0.49	-0.56	-0.38	0.52	-0.22	0.18	0.30	0.58	0.03	0.27
FSU	0.17	0.31	-0.01	0.00	-0.11	0.05	0.06	0.00	0.15	0.39	0.15	0.14	0.06	0.03	-0.11	0.03
Europe	0.02	0.02	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
China	0.88	0.28	-0.09	0.34	0.18	0.18	0.19	0.61	0.28	0.42	0.37	0.36	0.34	0.42	0.39	0.38
Other Asia	0.55	0.37	0.20	0.21	-0.14	0.16	-0.02	0.08	0.06	0.23	0.09	0.19	0.20	0.24	0.23	0.22
Latin America	0.27	0.15	0.15	0.12	0.11	0.13	0.11	0.08	0.12	0.12	0.11	0.10	0.10	0.12	0.11	0.11
Middle East	0.37	0.32	0.34	0.34	0.31	0.32	0.32	0.33	0.34	0.34	0.33	0.41	0.36	0.08	0.55	0.35
Africa	0.11	0.09	0.09	0.07	0.08	0.08	0.07	0.07	0.07	0.07	0.07	0.08	0.06	0.07	0.07	0.07
Total Non-OECD	2.37	1.53	0.70	1.09	0.43	0.94	0.75	1.17	1.03	1.57	1.13	1.28	1.13	0.98	1.25	1.16
World	3.12	2.20	1.26	1.28	0.05	1.19	0.26	0.61	0.65	2.09	0.91	1.46	1.43	1.56	1.28	1.43
Revisions to Oil Demand from Last Month's Report (mb/d)																
North America	-	-	-	-	-	-	-	0.01	0.03	-	0.01	-0.09	-	0.05	-0.02	-0.01
Europe	-	-	-	-	-	-	0.05	-0.03	-0.02	-0.04	-0.01	0.01	-	-	-0.04	-0.01
Pacific	-	-	-	-	-	-	-	-	0.01	-0.08	-0.02	-0.03	-0.02	-0.01	-0.02	-0.02
Total OECD	-	-	-	-	-	-	0.05	-0.01	0.01	-0.11	-0.02	-0.11	-0.02	0.03	-0.08	-0.05
FSU	-	-	-	-	-	-	-	-	0.05	0.14	0.05	0.05	0.05	0.05	0.05	0.05
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-0.06	-0.10	-0.04	-0.05	0.01	-0.05	-0.06	-0.04
Other Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	0.01	-0.01	-
Latin America	-	-	-	-	-	-	-	-	0.04	-	0.01	-	-	0.05	0.01	0.01
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-OECD	-	-	-	-	-	-	-	-	0.04	0.04	0.02	0.01	0.06	0.06	-0.01	0.03
World	-	-	-	-	-	-	0.05	-0.01	0.06	-0.07	-	-0.11	0.04	0.09	-0.08	-0.02
Revisions to Oil Demand Growth from Last Month's Report (mb/d)																
World	0.00	0.00	0.00	0.00	0.00	0.00	0.05	-0.01	0.06	-0.07	0.01	-0.16	0.05	0.03	-0.01	-0.02

Table 3
WORLD OIL PRODUCTION
(million barrels per day)

	2005	2006	2007	2Q06	3Q06	4Q06	1Q07	2Q07	Sep 06	Oct 06	Nov 06
OPEC											
Crude Oil											
Saudi Arabia	9.06			9.02	8.95				8.86	8.78	8.62
Iran	3.88			3.78	4.05				3.85	3.80	3.73
Iraq	1.81			1.99	2.04				2.05	1.94	1.88
UAE	2.46			2.63	2.65				2.64	2.67	2.59
Kuwait	2.13			2.22	2.20				2.21	2.22	2.21
Neutral Zone	0.58			0.58	0.57				0.58	0.58	0.57
Qatar	0.77			0.81	0.82				0.83	0.81	0.80
Nigeria	2.40			2.19	2.24				2.19	2.24	2.20
Libya	1.64			1.70	1.73				1.75	1.75	1.73
Algeria	1.34			1.36	1.34				1.35	1.35	1.34
Venezuela	2.71			2.61	2.51				2.55	2.51	2.41
Indonesia	0.94			0.91	0.87				0.87	0.86	0.86
Total Crude Oil	29.74			29.80	29.97				29.71	29.48	28.93
Total NGLs[1]	4.46	4.69	4.89	4.66	4.72	4.75	4.79	4.82	4.70	4.74	4.74
Total OPEC	34.20			34.46	34.69				34.41	34.23	33.67
NON-OPEC[2]											
OECD											
North America	14.14	14.32	14.49	14.20	14.34	14.56	14.75	14.40	14.39	14.40	14.56
United States	7.32	7.40	7.50	7.36	7.46	7.58	7.62	7.55	7.48	7.50	7.57
Mexico	3.76	3.71	3.58	3.77	3.69	3.60	3.61	3.60	3.69	3.58	3.62
Canada	3.06	3.21	3.41	3.06	3.19	3.39	3.52	3.25	3.22	3.31	3.37
Europe	5.60	5.20	5.27	5.13	4.93	5.22	5.38	5.19	4.75	5.05	5.23
UK	1.83	1.66	1.68	1.66	1.48	1.66	1.75	1.66	1.52	1.59	1.66
Norway	2.97	2.79	2.84	2.70	2.73	2.80	2.87	2.78	2.57	2.70	2.81
Others	0.80	0.76	0.75	0.77	0.72	0.76	0.75	0.75	0.66	0.76	0.76
Pacific	0.58	0.57	0.66	0.50	0.65	0.64	0.64	0.62	0.63	0.63	0.64
Australia	0.54	0.53	0.60	0.46	0.61	0.60	0.60	0.59	0.60	0.60	0.61
Others	0.04	0.04	0.05	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Total OECD	20.33	20.09	20.42	19.83	19.92	20.41	20.77	20.21	19.77	20.08	20.44
NON-OECD											
Former USSR	11.64	12.05	12.55	12.02	12.19	12.28	12.32	12.47	12.11	12.25	12.29
Russia	9.48	9.69	9.92	9.67	9.78	9.78	9.77	9.85	9.76	9.76	9.80
Others	2.16	2.36	2.62	2.34	2.41	2.50	2.55	2.61	2.36	2.49	2.49
Asia	6.30	6.39	6.47	6.37	6.35	6.41	6.45	6.45	6.37	6.40	6.40
China	3.62	3.68	3.74	3.70	3.68	3.67	3.71	3.72	3.65	3.65	3.67
Malaysia	0.77	0.75	0.76	0.71	0.75	0.76	0.76	0.75	0.76	0.77	0.75
India	0.78	0.79	0.82	0.79	0.77	0.81	0.81	0.81	0.80	0.82	0.80
Others	1.13	1.17	1.17	1.16	1.15	1.17	1.18	1.17	1.16	1.16	1.17
Europe	0.16	0.15	0.13	0.15	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Latin America	4.30	4.43	4.64	4.42	4.44	4.51	4.58	4.59	4.46	4.48	4.52
Brazil	1.99	2.11	2.30	2.08	2.10	2.18	2.24	2.26	2.11	2.16	2.19
Argentina	0.78	0.78	0.77	0.78	0.79	0.77	0.77	0.77	0.79	0.78	0.77
Colombia	0.53	0.53	0.53	0.54	0.53	0.53	0.53	0.53	0.53	0.53	0.53
Ecuador	0.53	0.54	0.56	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Others	0.47	0.48	0.48	0.47	0.48	0.48	0.49	0.48	0.48	0.47	0.48
Middle East[3]	1.86	1.74	1.70	1.75	1.72	1.71	1.71	1.71	1.71	1.71	1.70
Oman	0.79	0.74	0.71	0.74	0.73	0.72	0.72	0.71	0.72	0.73	0.72
Syria	0.46	0.42	0.38	0.42	0.41	0.40	0.39	0.38	0.41	0.41	0.40
Yemen	0.42	0.39	0.42	0.39	0.38	0.38	0.40	0.42	0.38	0.38	0.39
Africa	3.72	3.99	4.46	3.87	4.04	4.11	4.24	4.35	4.11	4.04	4.12
Egypt	0.70	0.67	0.66	0.68	0.66	0.66	0.66	0.66	0.67	0.66	0.66
Angola	1.25	1.41	1.72	1.33	1.45	1.43	1.53	1.60	1.44	1.38	1.44
Gabon	0.23	0.23	0.23	0.24	0.23	0.23	0.23	0.23	0.23	0.23	0.23
Others	1.54	1.67	1.86	1.62	1.69	1.79	1.82	1.87	1.77	1.77	1.79
Total Non-OECD	27.97	28.75	29.95	28.57	28.88	29.15	29.45	29.70	28.91	29.03	29.18
Processing Gains[4]	1.86	1.90	1.92	1.89	1.88	1.92	1.92	1.92	1.88	1.92	1.92
Other Biofuels[5]	0.12	0.18	0.34	0.18	0.18	0.18	0.34	0.34	0.18	0.18	0.18
TOTAL NON-OPEC	50.28	50.92	52.63	50.47	50.85	51.67	52.48	52.18	50.73	51.21	51.71
TOTAL SUPPLY	84.48			84.93	85.54				85.14	85.44	85.39

1 Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Venezuelan Orimulsion (but not Orinoco extra-heavy oil), and non-oil inputs to Saudi Arabian MTBE. Orimulsion production will reportedly cease from January 2007.
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.

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			
	Jun2006	Jul2006	Aug2006	Sep2006	Oct2006*	Oct2003	Oct2004	Oct2005	4Q2005	1Q2006	2Q2006	3Q2006
North America												
Crude	458.7	456.1	451.4	456.6	465.3	408.8	405.8	450.0	0.26	0.07	-0.05	-0.02
Motor Gasoline	241.6	238.7	237.9	244.5	231.8	221.3	233.8	231.1	0.10	0.07	-0.01	0.03
Middle Distillate	199.9	209.2	219.1	223.1	209.9	206.3	189.3	197.9	0.16	-0.20	0.06	0.25
Residual Fuel Oil	52.3	52.4	52.4	53.0	52.3	43.3	44.4	43.3	0.03	0.07	0.02	0.01
Total Products[3]	669.5	687.1	703.1	723.4	691.4	643.7	643.3	664.2	-0.04	-0.26	0.38	0.59
Total[4]	1275.7	1297.0	1314.4	1341.5	1317.1	1213.2	1202.1	1275.7	0.01	-0.20	0.40	0.72
Europe												
Crude	338.2	349.6	332.8	327.0	322.3	332.7	328.1	334.1	-0.13	0.18	-0.07	-0.12
Motor Gasoline	100.4	97.7	101.4	104.0	102.9	110.1	113.2	107.8	0.09	-0.01	-0.12	0.04
Middle Distillate	256.2	263.8	271.9	271.3	261.4	233.3	253.4	263.0	-0.02	-0.11	0.11	0.16
Residual Fuel Oil	75.2	74.3	77.0	76.5	77.5	70.9	76.7	76.8	-0.02	-0.04	0.06	0.01
Total Products[3]	533.0	540.3	556.2	560.1	550.0	517.2	546.9	549.8	0.07	-0.16	0.04	0.29
Total[4]	943.2	964.0	963.5	960.9	945.3	922.8	946.4	959.5	-0.08	0.05	-0.06	0.19
Pacific												
Crude	181.1	175.9	173.8	175.0	176.3	167.4	177.1	174.6	-0.12	0.15	0.11	-0.07
Motor Gasoline	24.6	23.4	23.7	23.4	23.8	23.6	23.3	24.4	0.00	0.02	0.00	-0.01
Middle Distillate	69.8	75.4	80.9	86.1	87.1	79.6	75.0	84.5	-0.18	-0.01	0.10	0.18
Residual Fuel Oil	23.1	25.1	24.6	23.8	23.6	22.5	21.1	24.0	-0.04	-0.01	0.04	0.01
Total Products[3]	183.1	192.5	203.2	210.9	209.7	197.7	188.8	202.1	-0.26	0.00	0.17	0.30
Total[4]	435.5	440.2	449.9	458.8	458.3	437.0	438.0	452.4	-0.42	0.16	0.30	0.25
Total OECD												
Crude	978.0	981.6	958.0	958.6	964.0	908.8	910.9	958.7	0.01	0.40	-0.01	-0.21
Motor Gasoline	366.6	359.8	363.0	371.9	358.5	354.9	370.3	363.3	0.19	0.08	-0.12	0.06
Middle Distillate	525.9	548.4	571.9	580.6	558.3	519.2	517.7	545.5	-0.05	-0.33	0.27	0.59
Residual Fuel Oil	150.6	151.8	153.9	153.4	153.4	136.7	142.1	144.1	-0.03	0.02	0.12	0.03
Total Products[3]	1385.7	1419.8	1462.6	1494.4	1451.1	1358.6	1378.9	1416.1	-0.24	-0.42	0.58	1.18
Total[4]	2654.4	2701.1	2727.7	2761.2	2720.7	2573.0	2586.5	2687.6	-0.49	0.01	0.64	1.16

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			
	Jun2006	Jul2006	Aug2006	Sep2006	Oct2006*	Oct2003	Oct2004	Oct2005	4Q2005	1Q2006	2Q2006	3Q2006
North America												
Crude	687.9	687.9	687.8	687.8	688.4	630.9	670.3	685.2	-0.10	0.02	0.02	0.00
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	173.4	174.5	174.5	175.5	175.5	152.9	162.3	166.4	0.01	0.04	0.04	0.02
Products	236.3	235.8	237.3	235.0	235.0	210.7	204.5	236.9	0.02	-0.03	0.00	-0.01
Pacific												
Crude	380.9	382.2	381.5	381.5	381.5	382.8	382.5	381.1	-0.01	-0.01	0.00	0.01
Products	11.8	11.8	11.8	11.8	11.8	10.3	11.0	11.1	0.00	0.00	0.00	0.00
Total OECD												
Crude	1242.1	1244.6	1243.9	1244.8	1245.4	1166.5	1215.1	1232.7	-0.10	0.04	0.06	0.03
Products	250.1	249.7	251.2	248.8	248.8	223.0	217.6	250.0	0.02	-0.04	0.01	-0.01
Total[4]	1493.2	1495.3	1496.0	1494.6	1495.2	1390.6	1433.6	1483.6	-0.08	0.01	0.07	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 2005		End December 2005		End March 2006		End June 2006		End September 2006 [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	170.5	77	178.1	82	169.7	79	169.7	73	174.0	-
Mexico	52.8	25	43.9	21	41.7	21	42.1	21	47.0	-
United States[4]	1706.3	82	1699.6	83	1693.7	83	1731.6	83	1788.3	-
Total[4]	1951.7	77	1943.7	78	1927.2	77	1965.5	77	2031.4	78
Pacific										
Australia	34.1	37	32.7	36	35.5	39	38.9	42	35.3	-
Japan	637.9	117	612.1	103	620.1	130	627.2	130	649.1	-
Korea	145.4	65	134.9	59	137.4	68	155.4	77	160.5	-
New Zealand	7.9	48	7.2	44	6.8	45	6.7	46	7.2	-
Total	825.3	94	786.8	85	799.8	102	828.2	105	852.1	97
Europe[5]										
Austria	19.8	68	20.4	72	18.7	66	19.2	67	19.6	-
Belgium	30.3	51	28.6	45	27.3	52	30.4	59	31.3	-
Czech Republic	16.7	78	18.8	98	19.6	90	19.5	88	19.3	-
Denmark	20.5	111	20.3	102	19.5	99	20.4	106	21.2	-
Finland	27.3	123	25.1	113	26.7	120	30.5	136	26.8	-
France	191.4	97	195.6	93	196.2	104	188.7	97	187.5	-
Germany	275.8	105	282.6	111	279.9	110	281.4	104	278.5	-
Greece	34.6	75	33.1	69	35.4	93	34.9	86	36.0	-
Hungary	17.1	104	17.6	120	20.8	127	17.6	110	17.4	-
Ireland	13.2	65	11.6	55	13.1	72	12.6	71	14.1	-
Italy	137.0	77	132.0	71	131.5	81	126.0	76	134.1	-
Luxembourg	0.8	13	0.8	11	0.9	15	1.0	17	0.9	-
Netherlands	115.7	115	116.4	116	120.5	121	123.1	119	125.0	-
Norway	30.2	108	30.7	123	21.9	91	21.8	90	29.4	-
Poland	33.8	69	35.2	79	35.5	74	35.7	67	37.3	-
Portugal	26.8	82	25.7	78	24.7	83	24.7	81	23.8	-
Slovak Republic	5.1	59	6.5	83	8.3	102	7.7	89	7.4	-
Spain	131.7	84	128.6	79	130.2	84	129.2	82	133.9	-
Sweden	34.6	95	38.0	102	38.4	109	39.6	113	38.7	-
Switzerland	38.9	137	37.7	128	37.7	144	39.3	141	38.9	-
Turkey	50.9	77	51.1	100	51.6	79	51.6	78	53.7	-
United Kingdom	104.7	57	95.2	50	97.4	54	99.0	56	97.6	-
Total	1356.9	86	1351.2	86	1355.9	90	1353.8	88	1372.4	88
Total OECD	4133.9	83	4081.7	82	4082.9	85	4147.5	85	4255.8	84
DAYS OF IEA Net Imports[6]	-	116	-	114	-	115	-	116	-	119

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 2006 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]*		
3Q2003	3983	1383	2600	80	28	53
4Q2003	3928	1411	2517	79	28	50
1Q2004	3888	1423	2465	81	30	51
2Q2004	3974	1429	2545	81	29	52
3Q2004	4016	1435	2581	80	29	51
4Q2004	3998	1450	2547	79	29	50
1Q2005	4005	1462	2542	82	30	52
2Q2005	4116	1494	2623	84	30	53
3Q2005	4134	1494	2640	83	30	53
4Q2005	4082	1487	2595	82	30	52
1Q2006	4083	1487	2596	85	31	54
2Q2006	4148	1493	2654	85	31	54
3Q2006	4256	1495	2761	84	30	55

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 3Q2006 (when latest forecasts are used).

Table 6

IEA Member Country Destinations of Selected Crude Streams[1]

(million barrels per day)

	2003	2004	2005	4Q05	1Q06	2Q06	3Q06	Jul 06	Aug 06	Sep 06	Year Earlier Sep 05	Year Earlier change
Saudi Light & Extra Light												
North America	0.64	0.55	0.46	0.52	0.51	0.68	0.62	0.62	0.69	0.55	0.32	0.24
Europe	1.00	1.03	0.90	0.91	0.83	0.80	0.72	0.75	0.76	0.63	0.94	-0.31
Pacific	1.18	1.24	1.31	1.37	1.40	1.33	1.29	1.28	1.30	1.28	1.32	-0.04
Saudi Medium												
North America	0.83	0.80	0.81	0.81	0.65	0.61	0.67	0.68	0.61	0.72	0.49	0.23
Europe	0.11	0.11	0.16	0.16	0.17	0.14	0.14	0.13	0.13	0.16	0.18	-0.03
Pacific	0.24	0.23	0.26	0.32	0.38	0.35	0.35	0.36	0.35	0.33	0.23	0.10
Saudi Heavy												
North America	0.30	0.22	0.17	0.16	0.21	0.21	0.21	0.18	0.24	0.21	0.16	0.05
Europe	0.19	0.23	0.23	0.26	0.14	0.22	0.21	0.22	0.18	0.23	0.31	-0.08
Pacific	0.16	0.15	0.25	0.29	0.25	0.20	0.22	0.20	0.24	0.22	0.31	-0.09
Iraqi Basrah Light[2]												
North America	0.44	0.71	0.60	0.59	0.44	0.60	0.60	0.60	0.60	0.60	0.52	0.08
Europe	0.09	0.21	0.23	0.31	0.24	0.29	0.40	0.37	0.42	0.41	0.24	0.17
Pacific	0.03	0.12	0.06	0.06	0.08	0.09	0.10	0.03	0.13	0.13	0.07	0.06
Iraqi Kirkuk												
North America	0.06	0.02	..	..	..	..	0.01	..	0.03	..	..	..
Europe	0.12	0.08	0.05	0.03	..	..	0.04	0.06	0.03	0.04	0.16	-0.13
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Iranian Light												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.19	0.24	0.20	0.22	0.20	0.27	0.31	0.40	0.26	0.27	0.13	0.14
Pacific	0.17	0.16	0.15	0.15	0.19	0.12	0.10	0.08	0.08	0.14	0.12	0.02
Iranian Heavy[3]												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.59	0.57	0.63	0.57	0.48	0.57	0.67	0.76	0.54	0.72	0.62	0.10
Pacific	0.69	0.65	0.62	0.63	0.64	0.48	0.51	0.52	0.49	0.54	0.54	0.00
Venezuelan Light & Medium												
North America	0.69	0.67	0.82	0.81	0.76	0.68	0.60	0.65	0.53	0.63	0.69	-0.06
Europe	0.02	0.01	0.04	0.07	0.12	0.15	0.08	0.06	0.10	0.10	0.03	0.07
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
Venezuelan 22 API and heavier												
North America	0.60	0.88	0.72	0.56	0.72	0.72	0.73	0.70	0.81	0.67	0.43	0.24
Europe	0.06	0.05	0.06	0.06	0.08	0.05	0.06	0.05	0.07	0.04	0.07	-0.03
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
Mexican Maya												
North America	1.32	1.36	1.27	1.25	1.26	1.24	1.30	1.33	1.35	1.23	1.03	0.20
Europe	0.16	0.16	0.17	0.18	0.13	0.20	0.16	0.17	0.19	0.11	0.21	-0.10
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Mexican Isthmus												
North America	0.00	..	0.03	0.10	0.09	0.03	0.01	0.01	0.00	0.01	0.05	-0.04
Europe	0.00	0.01	0.03	0.05	0.01	0.00	0.00	..	..	0.01	0.03	-0.03
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
Russian Urals												
North America	0.14	0.12	0.13	0.09	..	0.16	0.16	0.10	0.25	0.14	0.10	0.03
Europe	1.62	1.86	1.77	1.69	1.68	1.83	1.66	1.62	1.73	1.62	1.74	-0.12
Pacific	0.00	0.01	0.00	..	..	..	0.01	0.03	..	..	..	..
Nigerian Light[4]												
North America	0.63	0.80	0.90	0.90	0.87	0.79	0.78	0.84	0.85	0.64	0.91	-0.27
Europe	0.41	0.28	0.35	0.41	0.28	0.27	0.39	0.44	0.46	0.26	0.38	-0.12
Pacific	0.08	0.11	0.05	0.02	0.09	0.03	0.02	0.03	..	0.03	0.06	-0.03
Nigerian Medium												
North America	0.17	0.23	0.17	0.15	0.19	0.17	0.16	0.22	0.02	0.25	0.09	0.16
Europe	0.06	0.04	0.07	0.07	0.08	0.08	0.08	0.05	0.10	0.10	0.11	-0.01
Pacific	0.01	0.01	0.01	..	..	..	0.01	..	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)

	2003	2004	2005	4Q2005	1Q2006	2Q2006	3Q2006	Jul-06	Aug-06	Sep-06	Year Earlier Sep-05	Year Earlier % change
Crude Oil												
North America	8069	8431	8384	8101	7740	8265	8686	8477	8595	8997	7561	19%
Europe	9096	9478	9792	9954	9398	9753	10168	10326	10136	10037	10279	-2%
Pacific	6711	6659	6801	6967	7399	6509	6683	6624	6768	6655	6311	5%
Total OECD	23876	24569	24978	25022	24537	24526	25537	25427	25498	25689	24152	6%
LPG												
North America	27	24	18	30	8	8	12	16	20	1	32	-98%
Europe	193	225	248	249	280	242	210	205	223	201	237	-15%
Pacific	541	541	527	486	651	575	593	545	643	591	497	19%
Total OECD	760	790	793	764	938	825	815	766	886	792	766	3%
Naphtha												
North America	67	99	110	76	41	49	64	47	74	71	105	-32%
Europe	305	282	273	281	352	276	307	245	361	314	294	7%
Pacific	770	769	746	760	692	731	810	830	797	802	692	16%
Total OECD	1142	1150	1129	1116	1084	1056	1180	1122	1233	1187	1090	9%
Gasoline[3]												
North America	669	794	1016	1148	1113	1365	1154	1120	1344	993	1218	-18%
Europe	150	137	165	120	194	149	125	178	51	148	147	0%
Pacific	70	105	102	90	86	145	75	93	68	62	72	-13%
Total OECD	888	1035	1283	1358	1393	1658	1354	1392	1463	1203	1437	-16%
Jet & Kerosene												
North America	97	101	130	268	79	191	203	175	233	200	167	20%
Europe	271	293	375	371	313	382	393	331	429	419	448	-6%
Pacific	102	77	66	49	131	39	43	43	40	45	59	-23%
Total OECD	470	471	571	687	523	612	639	549	702	665	674	-1%
Gasoil/Diesel												
North America	126	123	142	267	210	173	181	159	189	196	123	59%
Europe	652	751	845	867	1078	947	892	954	747	979	862	14%
Pacific	73	74	79	83	80	94	66	64	66	67	80	-17%
Total OECD	850	947	1066	1217	1368	1213	1139	1177	1002	1241	1065	17%
Heavy Fuel Oil												
North America	326	453	525	610	481	320	309	317	325	283	627	-55%
Europe	398	405	490	473	520	479	422	490	407	367	542	-32%
Pacific	88	76	85	82	122	105	76	91	93	44	77	-43%
Total OECD	812	935	1100	1166	1122	904	807	898	825	694	1247	-44%
Other Products												
North America	680	872	1005	1049	972	1162	1298	1279	1334	1281	1339	-4%
Europe	690	676	781	787	891	863	897	940	912	837	805	4%
Pacific	235	256	247	263	271	208	225	269	263	139	206	-33%
Total OECD	1605	1805	2033	2099	2134	2233	2420	2489	2509	2256	2350	-4%
Total Products												
North America	1991	2466	2947	3447	2903	3268	3221	3113	3518	3025	3610	-16%
Europe	2657	2767	3177	3148	3628	3337	3247	3344	3131	3264	3336	-2%
Pacific	1879	1898	1852	1812	2032	1896	1887	1935	1970	1750	1683	4%
Total OECD	6527	7132	7976	8407	8563	8501	8354	8393	8620	8039	8630	-7%
Total Oil												
North America	10061	10897	11332	11548	10643	11533	11907	11590	12113	12022	11171	8%
Europe	11753	12246	12970	13102	13026	13090	13414	13671	13267	13301	13616	-2%
Pacific	8590	8558	8653	8779	9431	8404	8569	8559	8738	8405	7995	5%
Total OECD	30403	31700	32954	33429	33100	33027	33890	33820	34118	33728	32782	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

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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 2006), 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 Platts prices, converted when appropriate to US$ per barrel according to the Platts specification of products (©2006 Platts - a division of McGraw-Hill Inc.).

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