

11 August 2005

## HIGHLIGHTS

- WTI pushed above \$64/bbl on a series of supply disruptions, geopolitical issues, an active hurricane season and strong refiner demand for light, sweet crude. A faster-than-normal seasonal draw in US gasoline stocks accentuated price sensitivity to a series of refinery problems at the tail-end of the gasoline season.
- Oil demand was revised down by 150 kb/d in 2005 and 120 kb/d in 2006 following the inclusion of further annual historical data revisions. However, 2005 and 2006 global demand *growth* are largely unchanged at 1.60 mb/d and 1.78 mb/d respectively, with weaker Chinese apparent demand partly offset by a modest adjustment to US data.
- Unscheduled summer outages in North America and the North Sea have contributed to a 205 kb/d downward revision to 2005 non-OPEC supply to 50.8 mb/d. Non-OPEC supply is expected to rebound by 1.25 mb/d in 2006 to average 52.0 mb/d. Higher OPEC volumes underpinned a 250 kb/d rise in July world oil supply to 84.7 mb/d.
- OPEC crude supply increased in July by 285 kb/d, to 29.6 mb/d. Main increases came from the UAE, Saudi Arabia, Iran and Iraq. The call on OPEC crude and stock change remains at 28.2 mb/d for 2005, but reaches 29.2 mb/d in the fourth quarter. The 2006 call is revised up by 240 kb/d to 28.3 mb/d.
- OECD total industry oil stocks in June were little changed from May, but the overall build in the second quarter came to 1.32 mb/d, 420 kb/d above the five-year average. Second quarter inventory gains were led by a 940 kb/d rise in product stocks. Days of forward demand cover remained flat from May at 54 days, but were two days above a year ago.

Next Issue: 9 September 2005

# CONTENTS

HIGHLIGHTS.....	1
EVOLUTION NOT REVOLUTION.....	3
DEMAND .....	4
Summary .....	4
OECD.....	5
Overview of OECD Demand Trends .....	5
Pacific.....	6
Europe .....	8
North America.....	8
Non-OECD.....	10
China .....	10
Chinese Demand: Where Did it Go?.....	11
Other Non-OECD.....	13
SUPPLY .....	15
Summary .....	15
OPEC.....	16
OECD.....	19
North America.....	19
North Sea.....	20
Other Non-OPEC .....	21
Russian Oil Production: The Riddle Remains Intact.....	22
OECD STOCKS.....	24
Summary .....	24
OECD Industry Stock Changes in June 2005 .....	25
OECD North America.....	25
OECD Europe .....	25
OECD Pacific.....	25
OECD Inventory Position at End-June and Revisions to Preliminary Data .....	26
Recent Developments in ARA Independent Storage .....	26
Recent Developments in Singapore Stocks.....	27
PRICES .....	29
Summary .....	29
Crude Oil Prices .....	29
Spot Crude Prices and Differentials .....	29
Crude Futures.....	31
Delivered Crude Prices in May .....	32
Product Prices.....	32
Spot Product Prices .....	32
Product Futures .....	35
End-User Product Prices in July.....	36
Freight .....	36
REFINERY ACTIVITY .....	37
Summary .....	37
Refining Margins .....	38
Refinery Throughput.....	42
TABLES.....	44
OIL MARKET REPORT CONTACTS	

## EVOLUTION NOT REVOLUTION

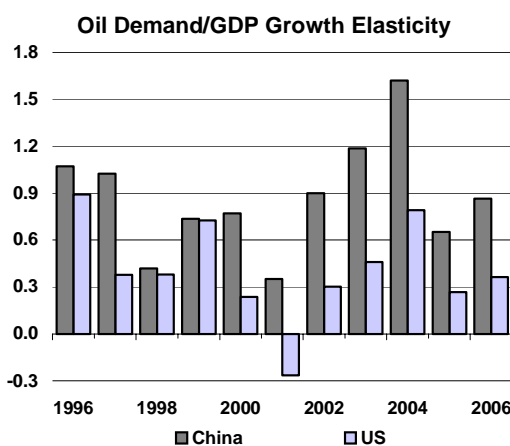
Relationships between oil demand and GDP growth in several countries appear to have been erratic over the past few years. The latest upward revisions to US oil demand and downward revisions to its GDP growth for 2004 have exacerbated the divergence in their traditional relationship. It has also raised questions over the level of US oil demand growth reported so far in 2005. Similarly, slow apparent oil demand growth in China in 2005 runs counter to a near double-digit expansion in GDP.

But, if the oil market could be explained by a simple set of rigid economic relationships, there would be precious little need for analysts and oil traders. Any uncertainty would simply revolve around economic forecasts and oil companies could micromanage stocks and capacity additions. But this is not the case: the oil market is continually evolving. It is what makes analysing it both fascinating and frustrating.

Looking at the historical ratio of oil demand to GDP growth would suggest that oil demand should be growing at a much higher level than in China than at present. Oil demand growth in China has averaged around 90% of GDP growth over the past five years but seems set to dip to, at best, 65% this year. But such variation is normal. The ratio of Chinese oil demand to GDP changes has swung between 35% and 162% year-on-year over the same period. Similarly, in the US, the ratio of oil to GDP growth has averaged around 37% over the past five years, but has been as low as -27% and as high as 79% during that period.

Quite simply, the vagaries of the weather, price, secondary and tertiary stock movements and other variables can have as much (if not more) of an impact on primary oil demand as GDP growth in any particular year. Over the past few years, the availability of non-oil energy has also played a critical role in determining oil demand growth, for example, Japanese nuclear power outages in 2002/3 and European nuclear and hydroelectric power shortfalls during the 2003 heatwave. A move above or below average growth trends is more likely to reflect these factors than flagging a possible data revision.

Oil data (like GDP data) can always be revised, but given the surge in Chinese crude imports and product exports, it seems unlikely that any historical adjustments will materially affect the overall trend we have been seeing. Further, reports that thermal coal production in China is up almost 40% year-on-year, contribute to the relative weakness of Chinese fuel oil imports so far this year. While refiners continue to indicate they will supply more product to the domestic market if retail prices are raised to market levels, there are also signs that consumers are starting to balk at recent price increases. In the US, it is recognised that the upward revision to 2004 oil demand is likely to be followed by a further upward revision to 2005 monthly data, and our monthly numbers have been adjusted accordingly.



Fluctuations in oil demand growth in the two largest consumer countries are by no means isolated cases - but they generate additional uncertainty and increase market concerns about capacity constraints. A sharp rise in OECD stocks in the first half of 2005, combined with a substantial improvement in the US distillate stock position has clearly provided insufficient comfort to a US market facing a heavy autumn refinery maintenance schedule and an active hurricane season. Nor have nascent signs of increased oil-company investment spending dispelled the view that oil companies have switched from a position of just-in-time inventory to one of just-in-time capacity.

Higher oil prices have brought about a limited demand-side and substitution response. They have not completely choked off oil demand growth. Neither (so far) has the impact been sufficient to reverse economic growth and that is no bad thing. Ask central bankers and they will tell you that it is preferable to raise interest rates gradually to curb inflation, rather than quash it with a five-percentage point rise. But, the world economy is still largely responding to last year's rise in price, and has yet to feel the full force of this year's increase.

As the past few years have shown, successfully micromanaging supply is a nigh-on impossible task: the tighter the capacity, the higher the level of stocks needed to compensate. Stocks have built rapidly in the first half of 2005, despite \$60 oil, but clearly, the market verdict remains that more inventories are needed until investment responses catch up and demand patterns are clearer.

# DEMAND

## Summary

- Projected 2005 **global demand growth** remains largely unchanged at 1.60 mb/d, a 20 kb/d increase compared with last month's Report. In 2006, world demand is forecast to grow by 1.78 mb/d, a 30 kb/d upward revision.
- Revisions to historical demand data resulted in a decline in **baseline global demand**, contributing to a 150 kb/d downward adjustment to the 2005 demand level. These revisions also impact upon the 2006 demand forecast, which is revised down by 120 kb/d. Global demand is expected to average 83.72 mb/d in 2005 and 85.51 mb/d in 2006.

### Global Oil Demand from 2004 to 2006

	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
Demand (mb/d)	82.1	80.9	81.7	83.8	82.1	83.9	81.8	83.3	85.9	83.7	85.6	83.7	85.2	87.6	85.5
Annual Change (%)	2.8	5.3	3.6	3.1	3.7	2.1	1.1	2.0	2.5	2.0	2.1	2.3	2.2	2.0	2.1
Annual Change (mb/d)	2.2	4.1	2.8	2.5	2.9	1.8	0.9	1.7	2.1	1.6	1.7	1.9	1.8	1.7	1.8
Changes from last month's report (mb/d)	-0.2	-0.2	-0.1	-0.1	-0.2	-0.1	-0.1	-0.4	-	-0.2	-0.1	-0.1	-0.2	0.1	-0.1

- **OECD demand** has been revised upwards by 80 kb/d in 2005 and 100 kb/d in 2006. This stems largely from unexpectedly strong Japanese demand growth in the second quarter and a reassessment of the US demand outlook in light of comments released by the US Energy Information Agency (EIA). Taken at face value, recent upward revisions to 2004 annual data from the US imply that US demand growth has been negative, on average, in 2005. This certainly contradicts the preliminary picture presented by US monthly and weekly data and is inconsistent with still robust economic growth. However, the EIA suggests that the US monthly data submitted for 2005 are likely to be revised upwards when the annual data are released next year. As a consequence, our estimates of 2005 demand incorporate a further slight upward revision to the preliminary adjustment factor included in last month's Report. This month US demand has been revised upwards by a further 30 kb/d for 2005 and 40 kb/d in 2006. US-50 demand (not including US territories) is projected to grow by 200 kb/d in 2005 and 270 kb/d in 2006. On the whole, OECD demand is forecast to grow by 490 kb/d in 2005 and 420 kb/d in 2006.

### Global Oil Demand by Region

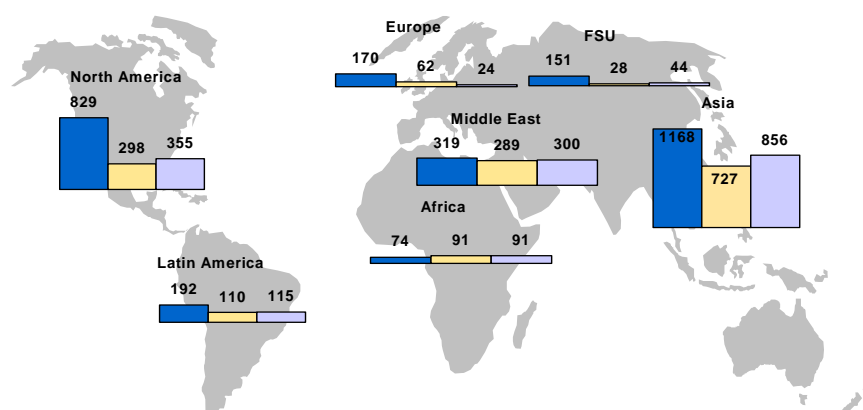
(million barrels per day)

	Demand	Annual Change			Annual Change (%)		
	2005	2004	2005	2006	2004	2005	2006
North America	25.65	0.83	0.30	0.36	3.4	1.2	1.4
Europe	16.34	0.17	0.06	0.02	1.1	0.4	0.1
OECD Pacific	8.67	-0.16	0.14	0.06	-1.9	1.7	0.7
China	6.75	0.86	0.32	0.51	15.4	4.9	7.5
Other Asia	8.79	0.47	0.27	0.29	5.9	3.1	3.3
Subtotal Asia	24.21	1.17	0.73	0.86	5.2	3.1	3.5
FSU	3.77	0.15	0.03	0.04	4.2	0.7	1.2
Middle East	5.88	0.32	0.29	0.30	6.0	5.2	5.1
Africa	2.89	0.07	0.09	0.09	2.7	3.2	3.1
Latin America	4.97	0.19	0.11	0.11	4.1	2.3	2.3
World	83.72	2.90	1.60	1.78	3.7	2.0	2.1

- **Non-OECD demand growth** has been revised down by 60 kb/d in 2005, to 1.12 mb/d, primarily as a result of a weaker outlook for Chinese apparent demand. The projection of 2006 non-OECD demand growth has been revised up by 20 kb/d, to 1.36 mb/d. Note that baseline non-OECD demand has been revised down by 230 kb/d in 2005 and 210 kb/d in 2006. This is largely due to a reassessment of historical demand data for Saudi Arabia, which carries through to the 2005 and 2006 projections.

## Global Demand Growth 2004/2005/2006

thousand barrels per day



## Total Global Demand Growth

(mb/d)

2004	2.90	3.7%
2005	1.60	2.0%
2006	1.78	2.1%

- Preliminary data suggest that **Chinese apparent demand growth** was weaker than expected in June and market reports suggest that it is not likely to post a strong recovery in July or August. Chinese apparent demand declined by approximately 1.4% in the second quarter of 2005 and the outlook for 2005 growth has been revised down by 40 kb/d, to 320 kb/d (4.9%). This is down from 860 kb/d (15.4%) demand growth seen in 2004. The decline may be attributed to numerous factors that could be temporary, including a government pricing policy that discourages net product imports and possible stock changes (which are not reflected in apparent demand). However, there is also evidence of a deceleration in actual consumption, notably in fuel oil, where increases in coal and hydro power are helping to limit the need for relatively expensive fuel oil imports. The revaluation of the Yuan and an increase in the official price of diesel and gasoline could support product imports, but the fact remains that there is limited incentive to supply the domestic market at current official prices.

## OECD

## Overview of OECD Demand Trends

Preliminary June 2005 inland delivery data suggest that demand growth was for the most part weak among the major OECD consumers, at 0.4%. Strong growth in the OECD Pacific was balanced by relative weakness in North America and Europe. It must be noted, however, that the provisional US monthly delivery data should be viewed with caution. Although US deliveries are reported to be flat in June, final 2005 monthly data are likely to be subject to upward revision (see discussion in the North America section).

Preliminary Inland Deliveries – June 2005<sup>1</sup>

	Gasoline		Jet/Kerosene		Diesel		Other Gasoil		RFO		Other <sup>2</sup>		Total Products	
	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa	mb/d	% pa
United States <sup>3</sup>	9.48	1.7	1.73	3.4	3.18	1.9	0.91	18.8	0.75	-8.7	4.7	-7.0	20.77	0.0
Canada	0.75	1.9	0.11	-0.9	0.47	4.2	0.04	-9.3	0.14	-13.9	0.3	-9.4	1.79	-1.3
Mexico	0.68	5.3	0.06	5.5	0.33	3.4	0.00	na	0.34	-7.6	0.4	-5.5	1.77	-0.1
Japan	1.07	8.0	0.37	30.2	0.68	6.1	0.48	12.3	0.46	0.4	1.5	0.7	4.56	6.3
Korea	0.17	10.4	0.13	18.6	0.35	-3.8	0.14	8.9	0.38	-6.3	0.9	2.2	2.07	1.4
France	0.27	-8.0	0.14	1.9	0.68	1.2	0.22	10.4	0.04	-4.4	0.5	-2.6	1.84	-0.4
Germany	0.58	-2.1	0.18	17.8	0.59	-3.3	0.34	-24.1	0.11	2.3	0.5	6.5	2.31	-3.4
Italy	0.33	-7.2	0.09	13.9	0.52	2.2	0.07	3.8	0.14	-3.7	0.4	-3.6	1.56	-1.3
<b>Total</b>	<b>13.34</b>	<b>1.8</b>	<b>2.81</b>	<b>7.9</b>	<b>6.79</b>	<b>1.7</b>	<b>2.22</b>	<b>5.7</b>	<b>2.36</b>	<b>-6.0</b>	<b>9.2</b>	<b>-3.9</b>	<b>36.66</b>	<b>0.4</b>

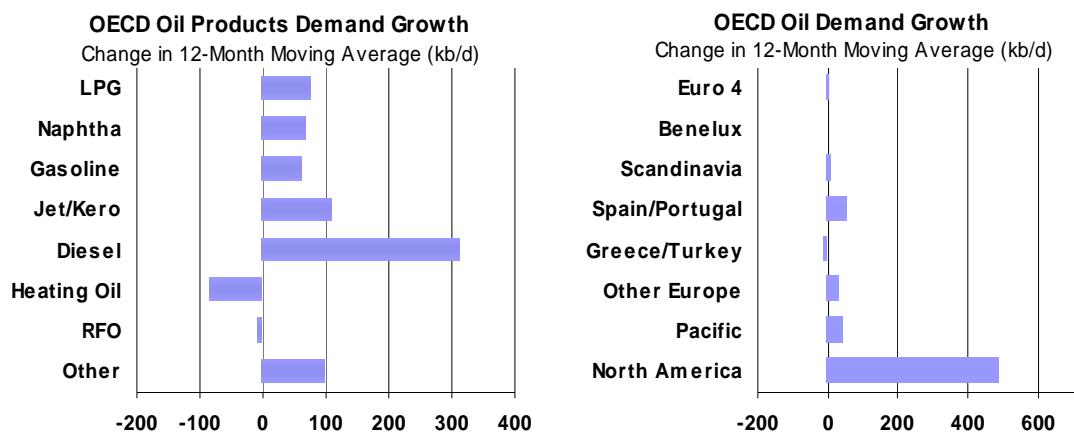
Sources: US EIA, Statistics Canada, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry, Percentage change is calculated versus the previous year.

<sup>1</sup> excludes refinery fuel and bunkers (except US and Korea)

<sup>2</sup> includes direct use of crude oil

<sup>3</sup> fifty states only. Diesel's share of total distillate is estimated.

Viewing the overall outlook for 2005, total OECD demand has been revised up by 140 kb/d in the second quarter. The largest change (100 kb/d) came in the OECD Pacific, where Japanese demand growth was unexpectedly strong in June 2005. Third quarter demand has been revised downwards by 10 kb/d, in part due to indications that US demand was weaker than previously anticipated in July. This was balanced by a stronger outlook for the OECD Pacific, which was revised upwards by 30 kb/d. There are reports that Japanese demand for residual fuel oil and direct crude burning may be somewhat stronger than previously anticipated due to hot weather and drought conditions in some areas. Finally, fourth quarter 2005 demand has been revised upwards by 120 kb/d, principally due to a reassessment of US demand prospects.



Looking to 2006, North American demand has been revised up by 70 kb/d. This is largely due to revisions to US demand, which stem partly from adjustments made to 2005 baseline demand. OECD Pacific demand has been revised up by 30 kb/d. Some of this increase may be attributed to a revision to baseline 2005 Japanese demand, which in turn affected the 2006 projection.

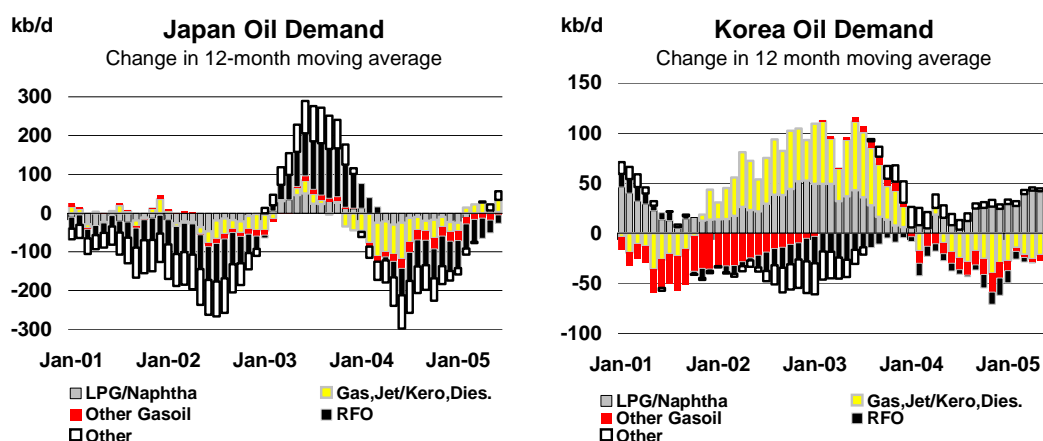
**Total OECD Demand by Product**  
(million barrels per day)

	2004	2005	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Latest month vs. Apr 05 May 04	
LPG & Ethane	4.86	4.80	4.59	4.42	5.03	5.39	5.09	4.46	4.15	-0.32	-0.26
Naphtha	3.22	3.30	3.05	3.20	3.33	3.40	3.37	3.33	3.12	-0.20	0.11
Motor Gasoline	14.88	15.01	15.00	15.24	14.89	14.46	14.84	14.95	14.95	0.00	0.10
Jet & Kerosene	4.10	4.24	3.75	3.92	4.23	4.62	4.47	3.92	3.81	-0.11	0.10
Gas/Diesel Oil	12.85	13.06	12.25	12.45	13.40	13.38	13.53	12.82	12.36	-0.46	0.72
Residual Fuel Oil	4.57	4.56	4.34	4.45	4.67	4.89	4.80	4.55	4.21	-0.35	0.00
Other Products	4.99	4.97	5.18	5.44	4.89	4.42	4.77	4.87	4.94	0.07	-0.18
<b>Total Products</b>	<b>49.46</b>	<b>49.95</b>	<b>48.16</b>	<b>49.13</b>	<b>50.44</b>	<b>50.56</b>	<b>50.87</b>	<b>48.91</b>	<b>47.54</b>	<b>-1.37</b>	<b>0.59</b>

### Pacific

Provisional data suggest that Japanese demand grew by 6.3% in June 2005. This was an unexpectedly robust gain, although a rebound in demand was anticipated following a 5.1% contraction in June 2004. Demand for jet/kerosene was particularly strong, with deliveries increasing by approximately 30.2%, which is likely due to consumer restocking following weak deliveries in May. June 2004 jet/kerosene demand was weak (-9.3%), but the 2005 demand recovery exceeded expectations. Deliveries of gasoline, gasoil and 'other products' (which includes direct crude burning in power generation) were also up sharply in June, but again, this is in contrast to a comparatively weak period last year.

As a consequence of revisions to June deliveries, Japanese demand was revised upwards by some 100 kb/d for the second quarter of 2005. The largest revision was to jet/kerosene demand, which was raised by approximately 40 kb/d. Second quarter 2006 demand is also revised upwards by 60 kb/d, in part due to a shift in the 2005 baseline. On the whole, Japanese demand growth is projected to reach 60 kb/d in 2005, 30 kb/d higher than estimated in last month's Report.



It has been reported that nearly 150 kb/d of crude was delivered to Japan's power utilities for direct burning in June 2005, which is close to double the crude volume burned in June 2004. This increase stems in part from hot weather and drought conditions in southwest Japan. The drought appears to have lowered the rate of hydroelectric output by about 120-130 kb/d of oil input equivalent below normal. Although the outlook for fuel oil demand has been revised marginally upwards (10 kb/d) in the third quarter of 2005, early indications are that the strong June rebound in deliveries may subside somewhat in later months. This may be driven in part by higher output from nuclear power plants.

On 13 July Tokyo Electric Power Co. (TEPCO) restarted the No. 1 unit at its Fukushima Daiichi nuclear power plant. The plant has been offline since 2002 when the Japanese government ordered TEPCO to close the unit. This year TEPCO expects its average nuclear power utilisation rate to return to 70-75% of installed capacity, only slightly below its normal operating rate of about 80%. Currently 12 out of 17 of TEPCO's nuclear power plants are on-line. In comparison, Kansai Electric Power Company has nine out of 11 of its plants on-line, with Mihama No. 3 still experiencing an unplanned shutdown.

In terms of other developments in Japan's oil product market, it should be noted that Japan's average retail gasoline price is reported to have reached \$1.15/litre in late July. This was a 12 year high. Japanese gasoline demand is projected to grow by only 0.1% in the third quarter of 2005, well below growth of 4.4% in the third quarter of 2004.

### OECD Pacific Demand by Product

(million barrels per day)

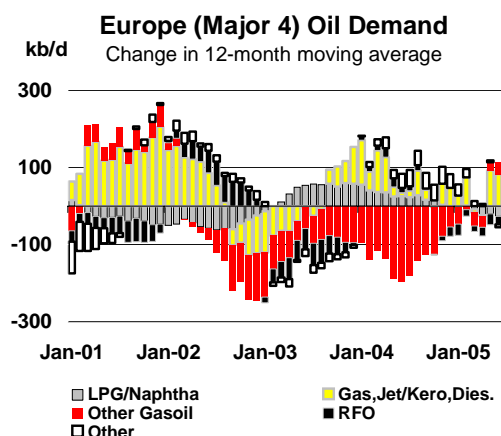
	2004	2005	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Latest month vs. Apr 05 May 04	
LPG & Ethane	0.88	0.88	0.85	0.79	0.88	1.00	0.98	0.94	0.82	-0.12	0.03
Naphtha	1.57	1.62	1.48	1.56	1.63	1.69	1.70	1.61	1.53	-0.09	0.03
Motor Gasoline	1.60	1.64	1.56	1.70	1.63	1.59	1.65	1.59	1.54	-0.05	-0.03
Jet & Kerosene	1.02	1.07	0.74	0.74	1.12	1.54	1.37	0.87	0.68	-0.20	-0.08
Gas/Diesel Oil	1.89	1.91	1.84	1.81	1.95	1.99	2.09	1.87	1.70	-0.17	-0.09
Residual Fuel Oil	1.05	1.05	0.96	1.03	1.05	1.17	1.17	1.04	0.91	-0.13	0.03
Other Products	0.52	0.51	0.47	0.54	0.52	0.52	0.58	0.50	0.45	-0.05	0.05
<b>Total Products</b>	<b>8.53</b>	<b>8.67</b>	<b>7.90</b>	<b>8.16</b>	<b>8.77</b>	<b>9.49</b>	<b>9.55</b>	<b>8.43</b>	<b>7.63</b>	<b>-0.80</b>	<b>-0.06</b>

At the time of writing, the Korean government was considering raising power tariffs in line with rising oil prices. Early soundings suggest that electricity prices could be raised as soon as September, although the magnitude of the increase remains unclear. The government has hesitated to act on requests by state-controlled Korea Electric Power Company to raise power tariffs because of the possible negative impact on the economy. The last increase in power prices came in 2000, and in fact as recently as March last year electricity tariffs were cut by 1.5% in an effort to boost the economy.

## Europe

Preliminary delivery data for June 2005 indicate that German heating oil demand pursued its roller coaster path. After posting a 56.2% increase in May, deliveries declined by 24.1% in June. All in all, while the swings in demand are large, the absolute level of demand remains relatively weak. These variations are expected to continue in coming months as consumers opportunistically respond to price changes and remain reluctant to fill their tanks at current prices.

Although European gasoline prices have recently shown some strength in line with US trends, June deliveries continue to reflect the long-term downward trend in demand. Deliveries declined on a yearly basis in France, Germany and Italy. Overall, among the four largest oil consumers in Europe (France, Germany, Italy and the UK) gasoline demand is projected to decline by 4.2% in 2005 and 3.0% in 2006.



### OECD Europe Demand by Product (million barrels per day)

	2004	2005	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Latest month vs. Apr 05 May 04	
LPG & Ethane	1.03	1.00	1.02	0.91	1.03	1.12	1.08	0.94	0.88	-0.06	-0.12
Naphtha	1.14	1.15	1.09	1.10	1.15	1.20	1.16	1.24	1.14	-0.09	0.11
Motor Gasoline	2.78	2.70	2.85	2.89	2.72	2.52	2.64	2.75	2.73	-0.01	0.00
Jet & Kerosene	1.16	1.22	1.14	1.25	1.16	1.14	1.16	1.20	1.25	0.05	0.14
Gas/Diesel Oil	5.98	6.06	5.58	5.83	6.37	6.17	6.09	5.92	5.67	-0.25	0.53
Residual Fuel Oil	2.00	2.01	1.93	1.97	2.08	2.13	2.14	1.99	1.86	-0.13	-0.04
Other Products	1.48	1.49	1.56	1.61	1.48	1.26	1.36	1.48	1.49	0.00	-0.04
<b>Total Products</b>	<b>15.58</b>	<b>15.62</b>	<b>15.16</b>	<b>15.56</b>	<b>15.98</b>	<b>15.54</b>	<b>15.62</b>	<b>15.51</b>	<b>15.02</b>	<b>-0.49</b>	<b>0.59</b>

OECD European demand has been revised upwards by 20 kb/d in the first and second quarters of 2005 and 10 kb/d in the third quarter. The largest changes were to the Netherlands, where demand for residual fuel oil and naphtha were stronger than expected in the second quarter of 2005. Extraordinarily hot weather and droughts are leading to increased demand for fuel oil in southern Europe. However, the impact of these weather-related developments has been previously factored into the forecast of third quarter demand, so at this point the European demand outlook for fuel oil remains largely unchanged. On the whole, OECD European demand is revised up by 10 kb/d in 2005 and remains unchanged in 2006. The outlook for demand continues to point at very modest growth of 40 kb/d in 2005 and 10 kb/d in 2006.

## North America

Middle distillates continued to lead demand growth in North America in June, with total gasoil (diesel and heating oil) deliveries growing by a provisional 4.9%. Jet/kerosene deliveries grew by a similarly robust 3.2%. However, this is subject to revision as discussed below.

As noted in the 13 July 2005 Oil Market Report, the US Energy Information Administration (EIA) released substantial revisions to 2004 petroleum demand in its *Petroleum Supply Annual*. Overall, a 214 kb/d upward revision implies that oil demand grew by an extraordinarily strong 3.5% in 2004. Although the US economy grew by an estimated 4.2% over this period, this is much stronger than would be expected based on previous links between US oil product consumption and economic growth. Moves to substitute residual fuel oil for relatively high priced natural gas certainly played a role (albeit possibly temporary), as consumption of fuel oil grew by 12.0% in 2004. However, other products, especially middle distillates, also posted exceptionally robust growth in 2004.

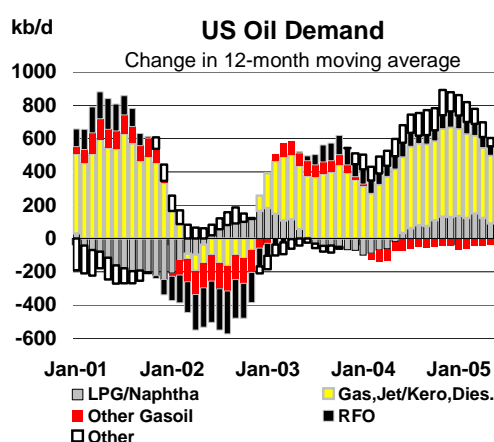
Among the individual products, the most substantial upward revisions to 2004 demand were to gasoline, residual fuel oil and 'other products,' while middle distillates demand was left largely unchanged. Upon incorporating these revisions, US oil product demand is estimated to have

increased by 4.3% in the second quarter of 2004. This includes a 338 kb/d upward revision to April 2004 demand and a 447 kb/d upward adjustment to June 2004 demand, which are the months that present the largest revisions.

Although the EIA points out that there have been similarly large revisions to annual data in the past, the fact remains that these revisions add considerable uncertainty to the 2005 demand growth outlook. Because 2004 annual data were revised upwards by such a large amount, US demand growth now appears surprisingly weak in 2005. In fact, taken at face value, EIA reports indicate that through 1 August 2005 demand actually declined by 0.4% versus the same period in 2004. While relatively high oil product prices may have slowed demand growth to some extent, such a large decline in demand appears to be inconsistent with reported economic growth of 3.7% in the first quarter of 2005. This suggests that US demand will be revised up in the future. In fact, in viewing gasoline demand, the EIA points out that, "demand growth has been revised up in five out of the last seven (years), strongly suggesting that 2005 upward revisions are more likely than not".

Due to the likelihood of future upward revisions to US monthly 2005 data, the submitted monthly data for 2005 in last month's Report have been modified. This month, we have made a further modest upward adjustment. The data are modified based on a combination of our view of demand trends and previous revisions to monthly data. On average, the submitted monthly data have been modified upwards by 160 kb/d over January-May 2005. The largest modification was to gasoline, which was adjusted upwards by an average of 90 kb/d for this period.

Combining the data modifications made for this month's Report with adjustments to the forecast, US-50 demand has been revised upwards by 90 kb/d for the first quarter of 2005. In the second quarter, April demand was revised up by 130 kb/d, but May demand came in weaker than anticipated and was adjusted down by 110 kb/d. June demand is revised up by 10 kb/d. On the whole, second quarter demand is revised up by 10 kb/d. In addition, preliminary indications suggest that demand growth was weaker than previously anticipated in July 2005. Although hot weather has supported oil demand in power generation, third quarter demand is revised down by some 60 kb/d. To a large extent these revisions carry through to 2006. Overall, US-50 demand is projected to grow by 200 kb/d (1.0%) in 2005, a 30 kb/d increase from last month's Report. In 2006 demand is projected to grow by 270 kb/d (1.3%).



#### OECD North America by Product

(million barrels per day)

	2004	2005	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Latest month vs.	
										Apr 05	May 04
LPG & Ethane	2.95	2.92	2.72	2.72	3.12	3.27	3.04	2.58	2.44	-0.13	-0.17
Naphtha	0.50	0.52	0.47	0.54	0.56	0.50	0.52	0.48	0.46	-0.02	-0.04
Motor Gasoline	10.50	10.68	10.59	10.65	10.55	10.35	10.54	10.62	10.68	0.06	0.12
Jet & Kerosene	1.91	1.96	1.87	1.93	1.96	1.94	1.94	1.85	1.88	0.03	0.04
Gas/Diesel Oil	4.98	5.09	4.84	4.81	5.08	5.22	5.36	5.03	4.99	-0.04	0.27
Residual Fuel Oil	1.51	1.51	1.45	1.46	1.54	1.60	1.49	1.52	1.43	-0.09	0.01
Other Products	2.99	2.97	3.14	3.30	2.89	2.65	2.83	2.89	3.00	0.12	-0.19
<b>Total Products</b>	<b>25.36</b>	<b>25.65</b>	<b>25.09</b>	<b>25.41</b>	<b>25.69</b>	<b>25.53</b>	<b>25.71</b>	<b>24.97</b>	<b>24.89</b>	<b>-0.08</b>	<b>0.06</b>

It should be emphasised that even after taking into account the upward revisions to submitted US demand data, US demand growth appears to have weakened in the first half of 2005. First quarter 2005 demand grew by a provisional 1.0%, versus 2.8% in the same period in 2004. Indications are that second quarter 2005 demand growth was flat (0.0%), well down from the 4.3% growth seen in the second quarter of 2004. This is consistent with other indicators of oil product demand growth which also point to some slowing of demand. For example, in the first half of 2005 the American Trucking Association's truck tonnage index was 2.7% higher than in 2004, which was below the forecast range of 3.0-3.5%. June 2005 truck tonnage was only 0.3% above June 2004.

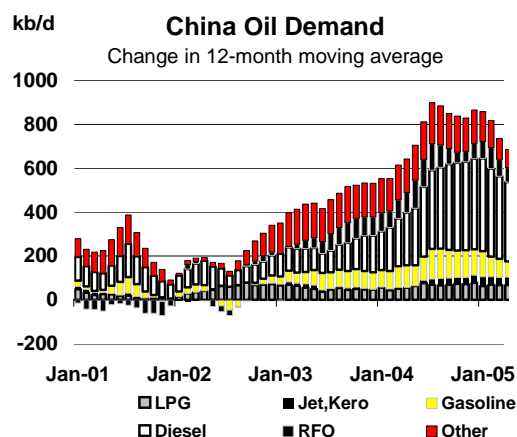
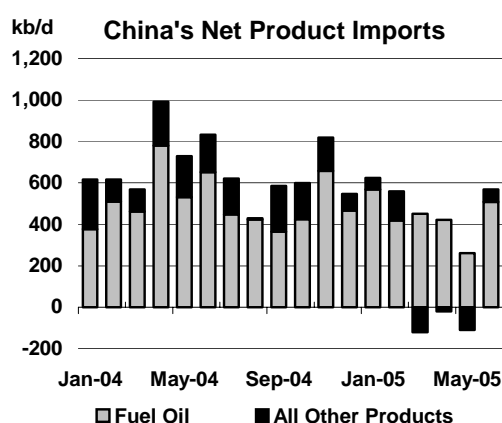
In tracking oil product demand, strong growth in a particular quarter is typically followed by slower year-on-year growth in the same quarter of the next year. Thus it is not entirely surprising that second quarter 2005 demand growth is relatively weak. US demand growth is projected to recover in the second half of 2005, growing by 1.4%.

Among the other countries in North America, Mexican demand growth has been revised upwards by 10 kb/d in 2005 and 30 kb/d in 2006. This is in large part due to a reassessment of the demand for 'other products.' The Canadian demand picture remains largely unchanged.

## Non-OECD

### China

Chinese apparent demand, which is defined as the sum of domestic refinery output and net product imports with adjustments for direct crude burning, smuggling and unreported refinery output, has been revised down by 30 kb/d in the second quarter of 2005. This revision stems largely from a downward adjustment to June demand based on preliminary numbers. At first glance, June demand looks relatively strong, as net product imports rebounded to 570 kb/d versus May net imports of 150 kb/d. Domestic production was also reported to have increased by 5.6%. It must be emphasised, however, that May 2005 net product imports were extraordinarily weak and June 2005 imports were still 260 kb/d below June 2004 levels (see figure). As a consequence, the pattern of past months continues; relatively strong domestic production is counteracted by weak net product imports. Overall, preliminary data suggest that June 2005 apparent demand declined by approximately 1.3% year-on-year.



In terms of individual products, fuel oil demand was particularly weak in the second quarter, declining by an estimated 18.0%. This decline may be partially attributed to the reluctance of small refiners, which often use straight run fuel oil as feedstock, to run at high rates in the face of sub-market official product prices. It is also likely due to an increase in coal and hydro power generation. Thermal coal production was reported to be 39% above last year over the January-May 2005 period.

### China Crude & Product Trade

(thousand barrels per day)

	2003	2004	3Q04	4Q04	1Q05	2Q05	Apr 05	May 05	Jun 05	Latest month vs. May 05	Jun 04
<b>Net Imports/(Exports) of:</b>											
<b>Crude Oil</b>	<b>1664</b>	<b>2346</b>	<b>2232</b>	<b>2491</b>	<b>2305</b>	<b>2541</b>	<b>2703</b>	<b>2406</b>	<b>2520</b>	<b>115</b>	<b>-102</b>
<b>Products &amp; Feedstocks</b>	<b>442</b>	<b>661</b>	<b>545</b>	<b>653</b>	<b>501</b>	<b>371</b>	<b>401</b>	<b>151</b>	<b>568</b>	<b>417</b>	<b>-263</b>
Gasoil/Diesel	-28	43	21	79	-6	-27	-46	-26	-10	16	-67
Gasoline	-175	-125	-146	-117	-151	-161	-171	-183	-129	54	12
Heavy Fuel Oil	407	506	412	515	480	395	422	261	508	247	-144
LPG	202	201	222	184	200	178	209	115	214	100	-5
Naphtha	-22	-33	-48	-51	-49	-67	-68	-54	-79	-25	-56
Jet & Kerosene	1	16	19	8	6	7	12	-7	16	23	-2
Other	58	52	64	34	22	45	44	45	47	2	-2
<b>Total</b>	<b>2106</b>	<b>3008</b>	<b>2777</b>	<b>3144</b>	<b>2807</b>	<b>2912</b>	<b>3104</b>	<b>2557</b>	<b>3088</b>	<b>531</b>	<b>-366</b>

Sources: China Oil, Gas and Petrochemicals plus IEA estimates

Looking to the third quarter, there are some indications that refiners may be cutting back on product exports in August and September. This should help boost apparent demand, but early reports indicate that apparent demand growth will be lower than previously anticipated. Crude runs are likely to remain largely unchanged from June in July and August. At the same time, net imports of fuel oil are expected to fall in July after recovering in June. On the whole, third quarter apparent demand is revised down by 120 kb/d and fourth quarter demand is adjusted downwards by 10 kb/d. Overall, apparent demand is revised down by 40 kb/d for 2005, with growth projected to average 320 kb/d (4.9%). The downward revisions to China's 2005 baseline demand are partially passed through to the 2006 projection, with a 20 kb/d reduction in apparent demand.

### China Demand by Product

	Demand (kb/d)			Annual Change (kb/d)		Annual Change (%)	
	2004	2005	2006	2005	2006	2005	2006
LPG & Ethane	633	660	697	27	37	4.2	5.7
Naphtha	684	743	823	59	80	8.7	10.8
Motor Gasoline	1069	1110	1203	41	93	3.8	8.4
Jet & Kerosene	239	257	282	18	25	7.4	9.8
Gas/Diesel Oil	2150	2295	2470	145	174	6.8	7.6
Residual Fuel Oil	829	827	875	-2	48	-0.3	5.8
Other Products	828	857	908	28	51	3.4	6.0
<b>Total Products</b>	<b>6433</b>	<b>6750</b>	<b>7259</b>	<b>316</b>	<b>509</b>	<b>4.9</b>	<b>7.5</b>

On 23 July the Chinese government moved to increase the price of key petroleum products. The retail price of gasoline was raised by 300 yuan/tonne (6.0%) and the retail price of diesel was increased by 250 yuan/tonne (6.4%). The recent 2% revaluation of the Yuan relative to the US dollar also helped to increase the attractiveness of supplying the domestic market, as it increases importers' purchasing power and lowers the return on product exports. Although these moves were certainly welcomed by refiners and retailers, domestic retail prices still remain low when compared to high product prices in the international market. Thus the incentive to limit product imports and, where possible, to export products remains in place. Although the combination of the price increase and the yuan revaluation should reduce importer's losses by some \$5-6/bbl, losses will remain at around \$10/bbl or higher (after customs duty and VAT) for gasoil if international prices remain at similar levels. This is an improvement over early July, when losses exceeded \$20/bbl.

### Chinese Demand: Where Did it Go?

Dissecting the Chinese demand picture has certainly been a challenge in recent years, and the first half of 2005 raises yet another difficult question. How can apparent oil demand grow by only 1.4% while the Chinese economy is reported to be growing at 9.5%? In explaining this disparity, some analysts have maintained that Chinese economic growth may be somewhat weaker than official government figures suggest. There is also evidence that growth in key energy consuming industrial sectors has slowed to a certain extent. Although these explanations probably have some merit, China's overall economic performance would still appear inconsistent with the weakness in apparent demand. There have been numerous hypotheses put forward by analysts to explain this inconsistency. We highlight our thoughts on some of the key areas below.

**Product prices** – Like a number of countries in Asia, the Chinese government has limited price increases in key petroleum products, including gasoil and gasoline, in an effort to minimise their impact on the domestic economy. Depending on how the policy is implemented, this type of pricing policy may yield two very different outcomes. (1) If domestic demand is fully satisfied by suppliers, such a pricing policy will support higher levels of demand than would have been the case at market prices. As a consequence, a government decision to increase product prices would likely reduce oil consumption. (2) In contrast, if suppliers balk at supplying the domestic market at prices below what they could receive in the international market (as appears to be the case in China), shortages may result. This could also distort behaviour in other ways, such as encouraging interfuel substitution because oil products are simply not available, which could also reduce apparent demand. Under these conditions, an increase in retail prices could have the perverse effect of increasing apparent demand if it encourages producers to supply the domestic market.

### **Chinese Demand: Where Did it Go?** (continued)

Although there are no reports of widespread shortages in the Chinese market, there are certainly indications that a reluctance to supply the domestic market may be altering consumption patterns. Independent service stations are reportedly having difficulties securing supplies in some areas and there is a reluctance to supply the market with RON 90 gasoline, which receives a lower margin than RON 93 gasoline. There have also been reports of gasoil rationing across Guangdong province and some stations affiliated with PetroChina have occasionally run short of gasoil.

In the end, it is near-impossible to discern the exact impact that moving closer to market prices for oil products would have on oil consumption in China. Refiners would certainly be more willing to supply the domestic market, but some consumers would resist paying higher prices. On the whole, a move to align prices with international markets may increase apparent demand to a certain extent, but it is unlikely to lead to a take-off in consumption.

**SARS recovery/increases in gasoil demand in power generation in 2004** – Although a recovery from the SARS crisis of 2003 did serve to inflate apparent demand growth in the first half of 2004, this was a temporary phenomenon which should not carry over to impact 2005 growth. Similarly, the power shortages of 2004 did result in a spike in the use of small diesel power generators in the first half of the year. There are some signs that the power shortages were less severe in the first half of 2005, which may have contributed to more limited use of small diesel generators.

**Stockbuilding** – It is critical to emphasise that by definition ‘apparent demand’ does not include allowance for stock builds or draws. As a consequence, substantial inventory changes may lead to a divergence between apparent demand and actual consumption. There have been some reports of a product stock draw in the first half of 2005, although the exact size of this draw is difficult to ascertain in the absence of available data. In addition, there is evidence that Chinese refiners increased inventories in 2004. Putting this anecdotal evidence together implies that actual consumption in the first half of 2005 may have been substantially higher than apparent demand. It should be noted that a drawdown in the first half of 2005 is consistent with evidence of a stock build at the end of 2004. We must caution, however, that if stocks were substantially overbuilt at the end of 2004, fourth quarter 2005 apparent demand growth could be weaker than expected.

**Smuggling and unreported output** – Both smuggling and the output of small independent refiners are estimated in our calculations of apparent demand. If there are large amounts of smuggling and/or output that goes uncounted, actual consumption may exceed apparent demand. There have been reports of smuggling from Vietnam, where gasoil prices are lower than in China, but the volumes are said to be relatively modest. Currently, the incentives for smuggling products into China are more limited than at times in the past as Chinese prices are relatively low when compared to international prices. The incentive for small independent refiners to increase production is also curbed by low product prices and poor refining margins. Declines in imports of straight-run fuel oil, which is often used as a feedstock by small independent refiners, would also indicate that the output of the small independents has declined. In any event, there is little to suggest that smuggling or unreported output has changed enough to dramatically skew 2005 apparent demand downwards versus 2004.

**Interfuel Substitution** – There are clear indications that interfuel substitution is playing a role in the reduction in demand for fuel oil in the first half of the year. Coal and hydro power generation have increased and some fuel oil users have turned to substitutes like ‘coal mud’ and ‘coal tar’. To the extent that this helps limit power shortages it may lead to less use of small gasoil-fuelled generators. In addition, there are signs that consumers are becoming more adept at adjusting to power shortages, which in turn can help reduce the use of small generators.

The true reason for the apparent inconsistency between China’s rapid economic growth and stagnant oil demand growth is likely a combination of several of the factors above. Consumption has slowed as some of the one-off effects that increased apparent demand in 2004 have diminished, but there has also been a drawdown in stocks versus 2004. In the end, what we are seeing in China reinforces the perils of extrapolating large swings in demand into the future. As we have seen repeatedly in the past, periods of high growth are typically followed by weaker growth the following year.

### Other Non-OECD

Preliminary data show that Indian demand will post a modest increase of approximately 0.7% in June after declining for the previous 2 months. Second quarter demand is expected to decline by 0.6%, as naphtha demand continued its pattern of prolonged decline. Overall, the substitution of LNG for relatively high priced naphtha in power generation or the production of fertiliser has reduced demand by some 15-20 kb/d on a monthly basis in the first half of 2005. According to recent estimates, producing urea (which is a key component of fertiliser) from LNG costs about \$155-175/tonne. In contrast, it costs roughly \$240-260/tonne to produce urea using fuel oil and about \$380-\$400/tonne using naphtha. Of course, these calculations depend upon the relative price of these feedstocks, but LNG is competitive with these alternatives over a wide range of prices. It is important to note, however, that the attractiveness of using LNG as a feedstock in fertiliser production is in part dependent on the fertiliser market retaining some level of protection/subsidy. In an unprotected market, importing fertiliser directly could be cost-competitive with producing fertiliser from LNG.

Indian demand is expected to return to growth in the third and fourth quarters, but the recent floods associated with the monsoon rains will likely dampen third quarter demand growth. The western region of India experienced its heaviest rains in almost a century, which caused stores to close, disrupted manufacturing operations and limited the movement of vehicles. In this region, daily sales were reported to be down by at least 25% for a period of over one week. As a result, the third quarter 2005 demand outlook has been revised down by a preliminary 20 kb/d. It is possible that demand could be revised further downwards as the full extent of the impact becomes more apparent. Indian demand is projected to grow by 70 kb/d in 2005 and the outlook for 2006 growth is 90 kb/d. Note that the 2004 demand for 'other products' has been modified and as a result baseline demand is raised by approximately 5 kb/d in 2004.

High oil prices continue to impact Asian governments' oil product pricing policies. On 13 July Thailand ended diesel subsidies in an effort to stem demand growth and reduce the strain on the government budget. Thailand already eliminated gasoline subsidies in October. This decision followed a substantial market distortion created by maintaining a dual pricing policy. Market gasoline prices were as much as 40% higher than subsidised diesel prices. As a consequence, sales of diesel powered light trucks rose by a reported 32% in the first half of 2005, while sales of gasoline powered passenger cars contracted by over 10%.

Amongst other countries in Asia, Malaysia recently increased retail prices of both gasoline (7%) and diesel (19%), its fourth price increase in the last eight months. India is also coming under pressure from refiners to further raise oil product price caps (the last increase was in late June) as refiners face mounting losses.

### India Crude & Product Trade

(thousand barrels per day)

	2003	2004	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05 <sup>1</sup>	Latest month vs. Apr 05 May 04	
<b>Net Imports/(Exports) of:</b>											
<b>Crude Oil</b>	<b>1863</b>	<b>1945</b>	<b>2090</b>	<b>2013</b>	<b>1742</b>	<b>1969</b>	<b>2017</b>	<b>1912</b>	<b>1905</b>	<b>-6</b>	<b>-12</b>
<b>(by Public Oil Cos)</b>	<b>1243</b>	<b>1158</b>	<b>1312</b>	<b>1214</b>	<b>1000</b>	<b>1133</b>	<b>1147</b>	<b>1123</b>	<b>1121</b>	<b>-2</b>	<b>33</b>
<b>Products &amp; Feedstocks</b>	<b>-152</b>	<b>-176</b>	<b>-173</b>	<b>-178</b>	<b>-222</b>	<b>-82</b>	<b>-36</b>	<b>-110</b>	<b>13</b>	<b>123</b>	<b>248</b>
Gasoil/Diesel	-119	-139	-135	-122	-162	-89	-32	-121	-76	45	68
Gasoline	-72	-75	-67	-75	-80	-53	-62	-24	-53	-29	31
Heavy Fuel Oil	5	-6	13	-5	-20	-4	-3	-7	29	36	25
LPG	55	86	39	86	128	95	82	70	86	16	64
Naphtha	-1	-7	10	-29	-25	-15	17	-32	-9	23	-13
Jet & Kerosene	-22	-47	-44	-43	-74	-34	-49	-11	25	36	74
Other	1	12	12	9	12	17	11	14	11	-3	-2
<b>Total</b>	<b>1712</b>	<b>1769</b>	<b>1917</b>	<b>1834</b>	<b>1520</b>	<b>1887</b>	<b>1981</b>	<b>1801</b>	<b>1918</b>	<b>117</b>	<b>235</b>

<sup>1</sup> Preliminary

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

FSU apparent demand (defined as the difference between crude production and net exports of crude and products) has been revised down due to a reassessment of Russian crude oil production and export prospects in the latter half of 2005 and extending through 2006. As discussed in the Supply

section of this Report, FSU crude production prospects have been revised downwards. However, this is balanced to a certain extent by revisions to crude and product exports. Apparent demand is revised down by approximately 10 k/d in both 2005 and 2006, so projected growth now stands at 0.7% in 2005 and 1.2% in 2006.

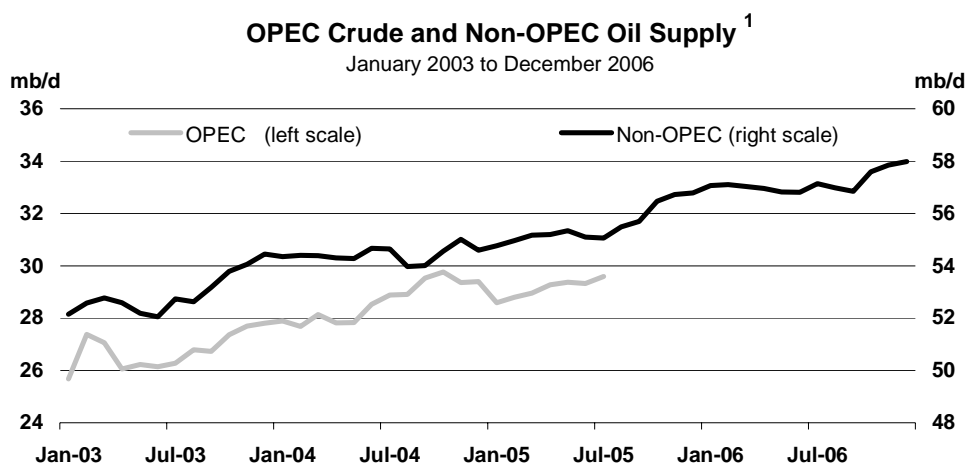
Brazilian oil demand growth rebounded by 5.0% in May 2005 after 2 months of relatively stagnant growth. Gasoline demand grew by 7.7% and gasoil demand grew by 6.3%. This growth pattern was generally anticipated, as baseline demand growth was exceptionally strong in March 2004 (13.7%) and April 2004 (8.7%), but much weaker in May 2004 (1.1%). However, the May rebound was stronger than expected and Brazilian demand was revised upwards by 50 kb/d in the second quarter, which was carried through to 2006.

With this month's Report we finalise the annual revisions to historical non-OECD demand data which extend back from 2003. The changes have been incorporated over the past several months as they became available. In most cases the modified baseline has an impact on the level of demand from 2003 onwards. Among the largest changes, Saudi Arabian demand was revised downwards by 170 kb/d in 2003. This stems largely from an upward revision to the assessment of LPG exports, and as a consequence domestic demand was revised downwards. The impact of this modification to baseline demand extends through the 2006 projection of Saudi Arabian demand. Finally, we have also completed our reassessment of seasonal consumption patterns in the non-OECD countries. This month's changes resulted in some minor modifications to seasonal consumption patterns, but did not impact annual demand estimates.

# SUPPLY

## Summary

- **World oil supply** increased by 250 kb/d in July to 84.7 mb/d. At the time of writing downward adjustments due to unscheduled stoppages continue to affect OECD production in particular. Gulf of Mexico hurricane activity was a key cause of the 105 kb/d fall in non-OPEC July production. OPEC crude supply was up by 285 kb/d from June's levels and averaged 29.6 mb/d. OPEC other liquids supply also rose by 70 kb/d. OPEC crude supply stood 715 kb/d above July 2004 levels, but non-OPEC output actually fell by 125 kb/d versus the equivalent 2004 level. OPEC other liquids output is running 525 kb/d above last year.
- **Non-OPEC supply** is forecast to average 50.8 mb/d in 2005, an increase of 675 kb/d versus 2004 but 205 kb/d less than envisaged in last month's Report. Unscheduled stoppages running from June to August and affecting the US Gulf, Mexico, Norway and the UK account for 150 kb/d of the downward adjustment. Lower than expected supply from Russia, the Asia-Pacific and Africa also lower the 2005 output estimates. Non-OPEC production is nonetheless expected to rebound in 2006, rising by 1.25 mb/d year on year. Increases next year are widespread, although projections for the North Sea, Russia, Latin America and Africa have been revised down from last month's initial projection. This results in a 370 kb/d downward adjustment to the non-OPEC total for 2006, which now averages 52.0 mb/d.
- The assessment for June **OPEC crude supply** is revised up by 50 kb/d to 29.32 mb/d. July supply rose by an estimated 285 kb/d to average 29.6 mb/d. The UAE accounted for 100 kb/d of the increase as supply from offshore fields recovered after maintenance. Saudi Arabia, Iran and Iraq added around 50 kb/d each. A 135 kb/d rise in Iraqi exports was partly countered by lower internal refinery crude runs. Nigeria, Indonesia and Qatar also saw modest increases. Total supply from the OPEC-10 (excluding Iraq) averaged 27.7 mb/d versus a 28.0 mb/d target effective from 1 July.
- The **'call on OPEC crude and stock change'** averages an unchanged 28.2 mb/d for 2005, although the fourth quarter call is revised up by 300 kb/d to 29.2 mb/d. Downward adjustments to non-OPEC 2006 supply push up the call for 2006 to 28.3 mb/d, with a fourth quarter peak of 29.8 mb/d. By way of comparison, OPEC sustainable production capacity for July 2005 was revised up by 160 kb/d to 31.7 mb/d based on the latest assessments for Nigeria, Iran and Qatar.



<sup>1</sup> Non-OPEC Oil Supply includes OPEC NGLs, condensate and non-conventional oil

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

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

## OPEC

Continued high prices supported a renewed rise in July OPEC supply, with output assessed up by 285 kb/d to 29.6 mb/d, from an upward-revised June level of 29.32 mb/d. New field developments in Iran pushed supply higher by 50 kb/d, passing through the erstwhile 4.0 mb/d capacity level. Production from the UAE bounced back by 100 kb/d after two months of sub-2.4 mb/d, maintenance-affected operations. Iraqi supply gained 40 kb/d to reach 1.87 mb/d. Higher exports were in part countered by lower refinery intake. Saudi Arabia nudged production higher by 50 kb/d to 9.55 mb/d, while at the same time appearing keen to avoid flooding the market with incremental heavy/sour barrels. Initial indications are that OPEC supply may have moved modestly higher again in August, although it is too soon to be definitive. Ongoing Kuwaiti field maintenance, a potential downturn in Iraqi barrels available for loading from Ceyhan and capacity constraints amongst OPEC producers outside Saudi Arabia will likely place a ceiling over August supply as a whole. In early August the OPEC President suggested that the organisation had raised supply to some 30.4 mb/d over the preceding two weeks, although some of the rise is likely to have represented a recovery from earlier disrupted Iraqi, UAE, Kuwaiti and Nigerian supply.

A dip in crude prices just after mid-July seemed to be sufficient to curtail discussions begun earlier in the month about a potential rise in target production levels to 28.5 mb/d for the OPEC-10. The initial June announcement of a quota rise to 28.0 mb/d for 1 July was accompanied by the possibility of a further discretionary rise to 28.5 mb/d in the event of sustained high prices. But recent statements from OPEC sources have tended to stress that ample crude is being supplied to the market and attribute high prices to geopolitical tensions and refining capacity logjams.

### OPEC Crude Production

(million barrels per day)

	1 July 2005 Target	July 2005 Production	Sustainable Production Capacity <sup>1</sup>	Spare Capacity vs. July 2005 Production	Production vs. Target
Algeria	0.89	1.35	1.35	0.00	0.46
Indonesia	1.45	0.95	0.98	0.04	-0.51
Iran	4.11	4.05	4.10	0.06	-0.07
Kuwait <sup>2</sup>	2.25	2.39	2.50	0.11	0.14
Libya	1.50	1.65	1.65	0.00	0.15
Nigeria	2.31	2.48	2.50	0.03	0.17
Qatar	0.73	0.80	0.83	0.03	0.07
Saudi Arabia <sup>2</sup>	9.10	9.55	10.50	0.95	0.45
UAE	2.44	2.41	2.55	0.14	-0.03
Venezuela <sup>3</sup>	3.22	2.12	2.20	0.08	-1.10
<b>Subtotal</b>	<b>28.00</b>	<b>27.74</b>	<b>29.16</b>	<b>1.42</b>	<b>-0.27</b>
Iraq		1.87	2.50	0.64	
<b>Total</b>		<b>29.60</b>	<b>31.66</b>	<b>2.06</b>	
<i>(excluding Iraq, Nigeria, Venezuela, Indonesia)</i>				<i>1.28)</i>	

1. Capacity levels can be reached within 30 days and sustained for 90 days

2. Includes half of Neutral-Zone Production

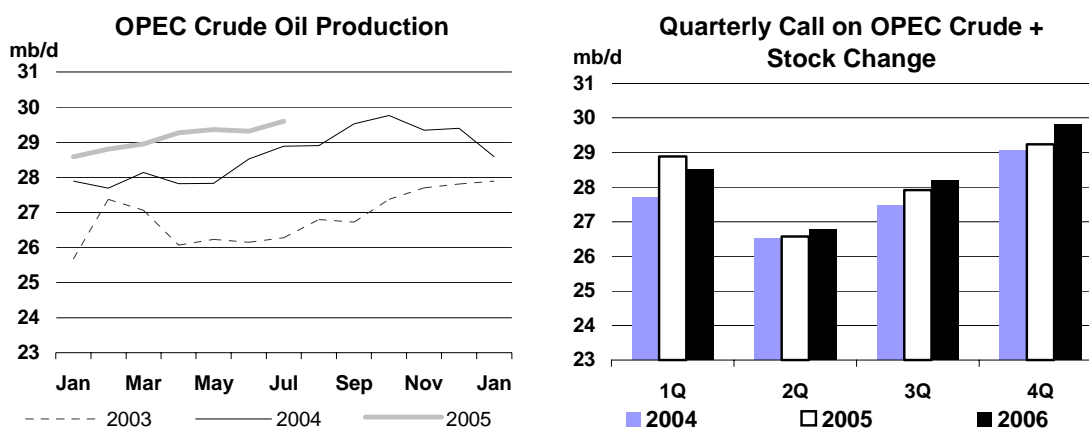
3. Excludes upgraded Orinoco extra-heavy oil which averaged 588 kb/d in July

Essentially, despite some recent increases in capacity for Iran, Nigeria and Qatar, spare capacity within OPEC resides with Saudi Arabia. Depending upon one's assessment of Saudi sustainable crude oil production capacity (most estimates lie in a 10.5 mb/d to 11.0 mb/d range) this amounts to some 1-1.5 mb/d currently. For Saudi Arabia and other OPEC producers, spare capacity is the one real tool for price control that they possess. For now however, OPEC producers aside from Saudi

Arabia have little market influence as their spare capacity has been almost exhausted. Excluding the seemingly eternally uncertain quartet of Iraq, Nigeria, Venezuela and Indonesia (where the concept of spare capacity is clouded by persistent risk of supply disruption) and Saudi Arabia itself, spare capacity amounts to less than 100 kb/d. And Saudi Arabia's spare capacity at present largely consists of heavier and sourer Arab Medium and Arab Heavy grades at a time when there is scant availability of refinery upgrading capacity.

OPEC's Long-Term Strategy Committee, meeting in July to discuss issues including the adoption of a new target price band, appeared to tacitly acknowledge this loss of control. It was reported to have concluded that markets were too volatile to consider announcing a new target price at the current time, with any decision on the matter potentially being deferred until after OPEC's 19 September ministerial conference. Moves to put in place a more comfortable spare capacity cushion, by way of expanding sustainable capacity, seem to have slowed considerably in the past few years, recent Saudi expansion plans notwithstanding. While on the one hand a 2 mb/d rise in production these past 18 months is to be applauded, a slower rate of investment in new capacity to sustain supply-side flexibility is less impressive.

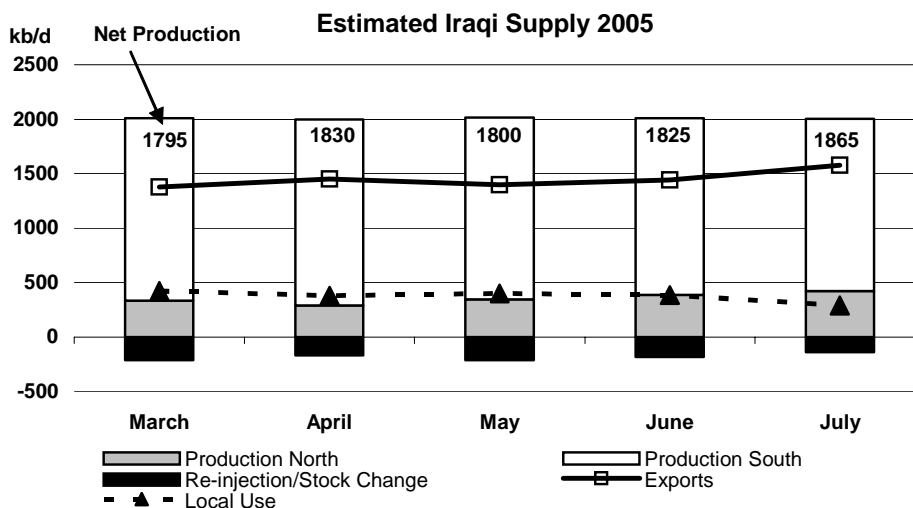
One problem of course is a wariness on the part of OPEC members to overinvest in spare capacity. However, with inventory levels building and global demand growth apparently slowing, but prices remaining stubbornly high, the lack of useable spare capacity is clearly having a major impact. This is particularly the case at a time (such as in July) of significant supply-side delays and interruptions. Renewed threats against US interests in Saudi Arabia, heightened uncertainty over political developments in Iran, Nigeria, Sudan and Mauritania (a new producer from next year), storms in the US Gulf of Mexico (and high profile damage to BP's Thunder Horse facilities), fire at India's flagship Bombay High field and repeated outages in the North Sea combined to shift focus once more onto supply uncertainty. Without significant spare capacity, therefore, the persistence of high prices through July is easier to explain.



Net production for **Iraq** in June was revised down by 20 kb/d to 1.83 mb/d. This resulted from lower than expected southern exports for the last week of the month, which gave a June monthly average for total exports of 1.44 mb/d. Total July exports rose to 1.58 mb/d. Exports from the southern terminals of Basrah and Khor al-Amayah increased to 1.42 mb/d from the previous month's 1.37 mb/d. In addition, crude shipped north by pipeline from Kirkuk during June was lifted by tanker from Ceyhan in July. In total, liftings from Ceyhan rose from 55 kb/d in June to 140 kb/d in July. In addition to ongoing (pipeline and tanker) liftings by Turkish refiner Tupras (1.65 mb), Total, Repsol and Exxon lifted a total of 2.63 mb from Ceyhan early in July. To date, no August Ceyhan liftings have been scheduled, given the sporadic nature of pipeline flows in July and low levels of crude now in storage at Ceyhan.

The 135 kb/d increase in crude exports in July does not, however, translate directly into higher assessed production. It was reported in June that higher southern July exports would result in part from a cut in runs at the Basrah refinery. Throughput at the Daura refinery near Baghdad was also disrupted in July after attacks on the plant in the first half of the month led to a fire. Total internal crude consumption within Iraq is assessed at just under 300 kb/d from around 385 kb/d in June. Net production of crude is therefore assessed at 1.87 mb/d in July, up by only 40 kb/d from June.

Export schedules for southern ports in the first half of August are equivalent to an ambitious 1.85 mb/d. However, Oil Ministry sources indicate that total exports may struggle to match July levels. While overall production edged higher in July, there were continued signs that progress in restoring Iraqi supply could remain slow. There were renewed calls from southern and northern regional authorities for a greater share of oil revenues and southern oil workers staged a 24 hour strike over wages. Reports emerged stressing the damage caused to the Kirkuk oil field by re-injection of crude and products over many years. Domestic refinery utilisation appears to be capped at or below 60% of capacity, leading the Iraqi authorities to seek out oil product supply deals. These include the proposed crude for products swap agreed with Iran last month and which could come into effect in about a year. In that deal, new pipelines from Basrah will ship 150 kb/d of crude to the Abadan refinery in return for 95 kb/d of refined products.



The phased return of Abu Dhabi's offshore Lower Zakum and Umm Shaif fields from maintenance underpins a 100 kb/d increase in July supply from the UAE. The increase was reflected in the 'extra' barrels of crude, over and above contract volumes, offered by ADNOC to term customers for the July to September period of 2.5-3 mb per month. The UAE is one of several producers whose crude output is constrained by a lack of gas utilisation options. Gas flaring restrictions limit the volumes of crude and associated gas that can be produced and underpin the apparent discrepancy between a notional 2.7 mb/d crude capacity and the effective sustainable level of 2.55 mb/d assumed by this Report. In this context, July announcements of plans to boost gas processing capacity raise the prospect of higher crude and gas liquids supply in future.

Tanker tracking data suggest a modest rise from Saudi Arabia and other Arab Gulf producers. Supply from **Saudi Arabia** in July is estimated at 9.55 mb/d, a rise of 50 kb/d from June. However, there is no sign of Saudi production diverging significantly in either direction from levels of around 9.5 mb/d which have been maintained for the past four months. Term allocations for August also appear to have been held steady close to July levels. With the bulk of Saudi spare capacity comprising relatively heavy, sour crude, the Kingdom has no wish to flood the market with crude that would likely require extensive discounts, given global refinery complexity constraints.

Little change in the Kingdom's oil policy was expected following the death of King Fahd in July and the succession of King Abdullah. Press reports suggest that state oil firm Aramco will substantially increase spending on development drilling in the period through 2008. The company plans to bring onstream new production amounting to some 2.5 mb/d in the period through 2009, partly offset by decline at existing fields. Most of the new production will be of lighter, sweeter grades. Allied to the construction of new complex refining capacity within Saudi Arabia, the Kingdom will be in a position by the turn of the decade to maximise export revenues by reorientating sales towards lighter crude and clean products.

Exports from **Iran** for June were revised up, inferring production of 4.0 mb/d. New output from the Soroush, Nowruz and Darkhovin fields inaugurated in July added 50 kb/d to average supply and leads to a 100 kb/d increase in assessed Iranian capacity to 4.1 mb/d. The outgoing oil minister confirmed that decline rates at mature fields in the Republic were such that Iran loses 300-400 kb/d of production capacity per year. This Report has for some time assumed a similar 7% decline rate for Iran. In this

context, Iranian claims for 4.2 mb/d production capacity would appear to be higher than suggested by this Report's definition of immediately sustainable capacity. However, rising supplies from the Darkhovin and Doroush fields suggest that Iran could attain capacity closer to 4.3 mb/d by the end of 2006.

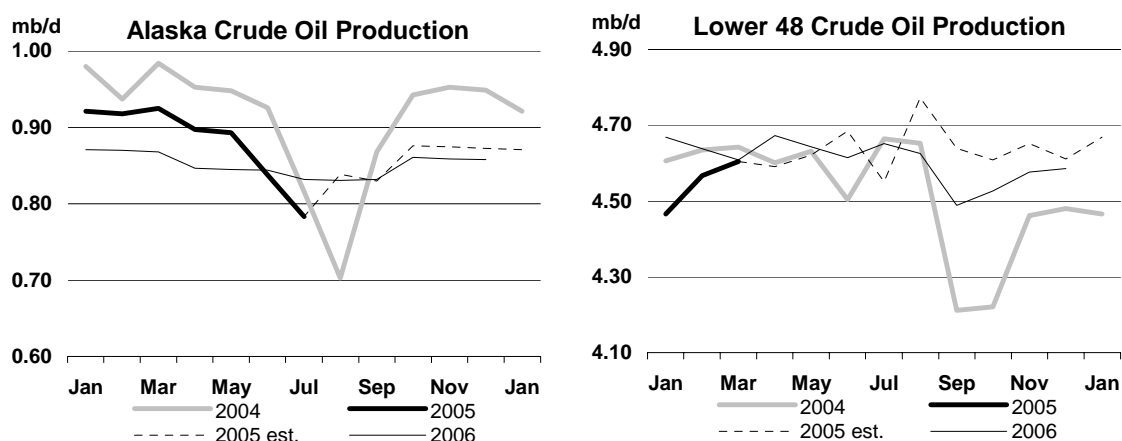
In the face of ongoing political uncertainty and concern over potential new field start-up delays, **Nigerian** production and capacity also moved higher in July. Output gained an estimated 25 kb/d to hit 2.48 mb/d, with exports rising by a similar amount. With the recent start of Addax' Okwori field and initial volumes from Shell's Bonga field expected from September, sustainable capacity is raised to 2.5 mb/d. The government reiterated in July that it will stick to its 2008 deadline for the ending of gas flaring, raising the prospect that some oil producers may at that time have to curb output. Shorter-term concerns surrounding production centred on renewed unrest in the Niger Delta area and the French firm Total reportedly shut-in 35 kb/d of early August production following ethnic clashes.

Sustainable production capacity for **Indonesia** has been revised down from 1 mb/d to 980 kb/d, although production for July edged higher to 945 kb/d. Mature field decline has seen crude production average at or below 950 kb/d in the first seven months of 2005. In addition, recent reports also suggest that production from two more recent field start-ups, West Seno and Belanak, is below anticipated levels. The government now expects crude oil and condensate production to lag 2005's budgeted levels of 1.125 mb/d by some 50 kb/d but suggests that new field developments due onstream in late 2005 could stabilise output at 1.075 mb/d in 2006. A government-appointed committee has recommended that Indonesia should remain a member of OPEC.

## OECD

### North America

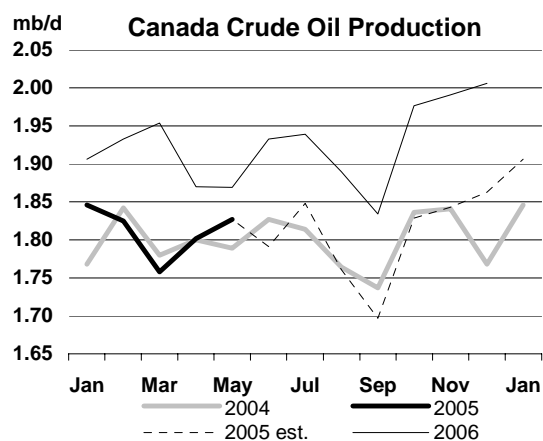
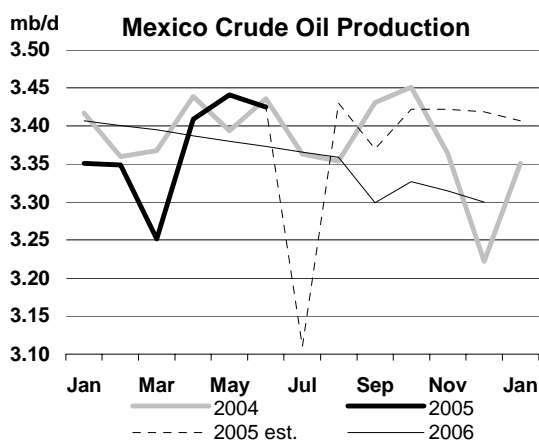
**US – July Alaska actual, others estimated:** Summer maintenance on the Trans-Alaska pipeline led to a 55 kb/d drop in Alaskan July crude production, while an earlier and more intense than usual start to the Caribbean hurricane season saw US Gulf of Mexico (GOM) production fall by 120 kb/d versus June. Total US crude supply averaged 5.3 mb/d in July compared to 5.5 mb/d in June. In all, Tropical Storm Cindy and Hurricanes Dennis and Emily caused the shut-in of just under 6 mb of July GOM output after storm losses of 0.6 mb in June. The deferral of summer maintenance work on the Mars platform, now scheduled for the fourth quarter, was also attributed in part to the storms. A further impact from Hurricane Dennis was the deferral of start-up at BP's Thunder Horse project which had earlier been expected to enter service in the fourth quarter. This is now assumed to be delayed by six months until second quarter 2006, although BP has said that no definitive decision on start-up will be made until this autumn. Given that Thunder Horse build-up was likely to be slow, not reaching peak 250 kb/d production until 2008, the impact on US and non-OPEC supply as a whole could prove minor, with a net loss of 30 kb/d for 4Q 2005 and 50 kb/d for 1Q 2006. Although ongoing hurricane shut-ins through the summer cannot be discounted, this Report retains the assumption that outages follow seasonal norms and are concentrated during September to November. September and October are assumed to lose 110 kb/d, with November shut-ins averaging 35 kb/d.



Unlike revisions made for other areas, the downward adjustments made to US oil supply are expected to taper out running through 2006, and to be concentrated in the period through first half 2006. US GOM, total US NGL and Alaskan crude are revised down by a combined 55 kb/d for 2005 and by 40 kb/d for 2006. However, production for the rest of the US is actually revised up by some 20 kb/d for both years based on higher baseline production for the period through May 2005. Increasing

GOM supply in 2005 and 2006, and NGL in 2005, help to stem declines elsewhere. Total US oil output rises to 7.8 mb/d in 2005 before dipping to 7.75 mb/d next year.

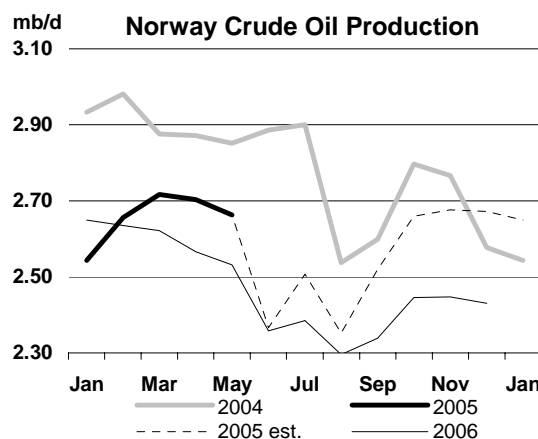
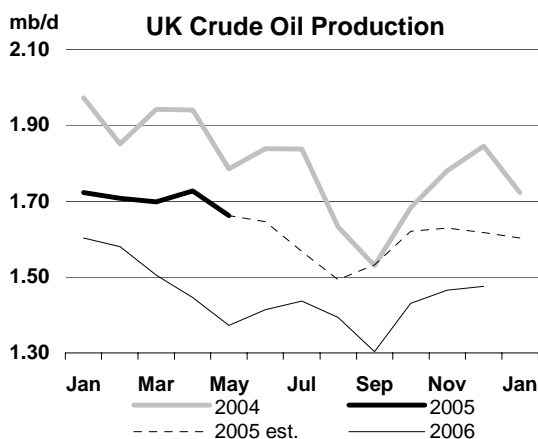
**Canada – Newfoundland June actual, others May actual:** The forecast of Canadian oil production is largely unchanged for 2005 at just over 3.0 mb/d, with recent synthetic crude unit outages underpinning the 55 kb/d decline from the 2004 average. However, it now appears that Husky Energy will start production from the offshore Newfoundland White Rose field before the end of 2005, as opposed to the March 2006 assumed in last month's Report. This adds 25 kb/d to Canadian 2006 production relative to the earlier projections and gives average oil production for next year of 3.3 mb/d, up by 255 kb/d from this year. Synthetic crude generates 145 kb/d of the increase while offshore Newfoundland supply rises by 90 kb/d and Alberta bitumen by 65 kb/d.



**Mexico – June actual:** Data from Pemex for June showed a modest 15 kb/d drop in crude production to 3.43 mb/d, while NGL production nudged higher to 450 kb/d. Crude exports fell by 45 kb/d, with deliveries of Maya to the Americas taking the brunt of the cut. However, July oil production (crude and NGL) is estimated to have fallen back much more sharply, by some 325 kb/d. Hurricane Emily was reported to have cut Mexican July export loadings by a combined 10.2 mb, although by 22 July Pemex reported that production had been fully restored with no substantial damage to offshore infrastructure. Total Mexican oil output is now seen falling by 20 kb/d in both 2005 and 2006, from a 2004 average of 3.83 mb/d.

#### North Sea

**UK – May actual:** The recent downward trend in UK production was confirmed by official data through May. Details on loading schedules for the main production systems and provisional indications on summer maintenance suggest further declines in June and July. However, the trend is now likely to extend into August too. Firstly, a fire on 29 July halted some 100 kb/d of production at the Schiehallion and Loyal facilities west of the Shetlands. The timing and level of re-start is at present uncertain, although this Report assumes an outage of two weeks' duration. Loading schedules for Forties in August also suggest heavier than anticipated maintenance and result in a 60 kb/d cut in Forties output compared to last month's estimate. In all, UK production is revised down by 10 kb/d for 2005, and a modest acceleration in assumed decline rates for 2006 cuts next year's output by 25 kb/d versus the earlier forecast. Total UK oil production now averages 1.89 mb/d in 2005 and 1.69 mb/d in 2006, compared to 2.05 mb/d in 2004.

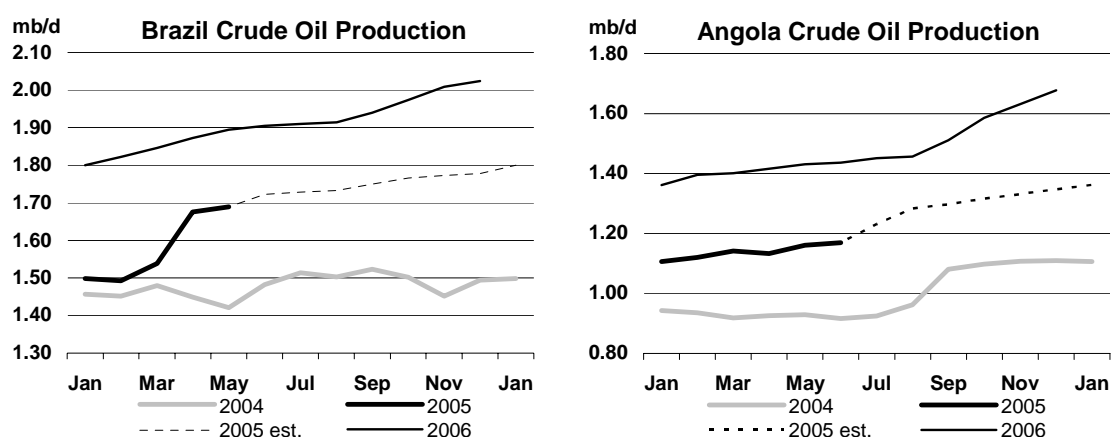


**Norway – May actual, June provisional:** Summer maintenance and a series of unplanned field outages had pulled Norwegian June oil output some 465 kb/d below its October 2004 peak. Total oil production averaged 3.0 mb/d in May and a provisional 2.8 mb/d in June (of which 2.7 mb/d and 2.4 mb/d respectively comprised crude oil). Furthermore, the past three quarters have seen oil production trending down on a yearly basis by over 250 kb/d. After a modest rebound in July to 2.9 mb/d, supply is expected to dip to 2.8 mb/d in August before recovering to levels around 3.1 mb/d in the fourth quarter. August is likely to see markedly lower production from the Ekofisk system due to maintenance. Statoil has also announced production problems affecting the Snorre and Vigdis fields in the Statfjord system, and the company has also seen intermittent production from the Veslefrikk field since June, having been ordered to curtail operations after defects in the lifeboat systems were discovered. The latter problem is likely to curb production at Veslefrikk until later in August. Thereafter however, the end of summer maintenance will encourage a gradual rise in production, with further contributions coming with the start-up of new liquids supplies from the Oseberg, Staer and Vigdis fields.

Aside from the scheduled and unscheduled stoppages affecting key fields in the past few months, production has also suffered due to lower than expected supply from a number of operating fields. This has led to downward adjustments for the balance of 2005 and through 2006 either through the adoption of lower plateau production levels or accelerated decline rates. Among fields for which lower forecast production has been incorporated are Tune, Kvitebjorn, Oseberg South, Snorre, Statfjord, Gullfaks, Troll and Draugen. Overall, 2005 production is revised down by 90 kb/d (concentrated in the second half of the year), while average 2006 supply is revised down by 170 kb/d. Production now falls to 3.0 mb/d in 2005 from 3.2 mb/d in 2004, and stabilises at 3.0 mb/d for 2006. Despite downward revisions to 2006 condensate supply compared to last month's projections, a 100 kb/d rise in gas liquids supply next year nonetheless counteracts a similar magnitude fall in crude.

### Other Non-OPEC

**Angola – June actual:** Angolan crude production averaged some 1.15 mb/d in May and June and is estimated at 1.23 mb/d for July as a result of start-up at the 250 kb/d Kizomba B project. Production began on 7 July, with some reports suggesting that peak output could be attained by August. While ramp-up of Kizomba production has been accelerated compared to last month's projections, this Report nonetheless retains a relatively conservative outlook, with peak production only becoming sustainable by the end of the year. Total Angolan production is now seen averaging 1.22 mb/d in 2005 and 1.48 mb/d in 2006. A full year of capacity output at Kizomba B, and start-up at the Benguela/Belize and Dalia projects underpin the rise in 2006 supply.



**Brazil – May final, June provisional:** Total Brazilian production rose by 225 kb/d in the January-June period, although growth appeared to slow to 20-30 kb/d on a monthly basis in May and June. Crude oil output reached an estimated 1.72 mb/d in June, with NGL and alcohol fuels contributing a further 335 kb/d. Peak production levels of around 300 kb/d are reportedly being approached in the deepwater Barracuda and Caratinga fields, which entered service in December and February respectively. The next significant increments in Brazil are likely to come after start-up of the 175 kb/d Albacore Leste project in the autumn and a 40 kb/d expansion of output at the Jubarte field in first quarter 2006 (deferred from earlier expected October 2005 start-up). The Golfinho pilot project will add 20 kb/d after a September 2005 start and Marlim Leste, Piranema and permanent Golfinho facilities add further supply in the second half of 2006.

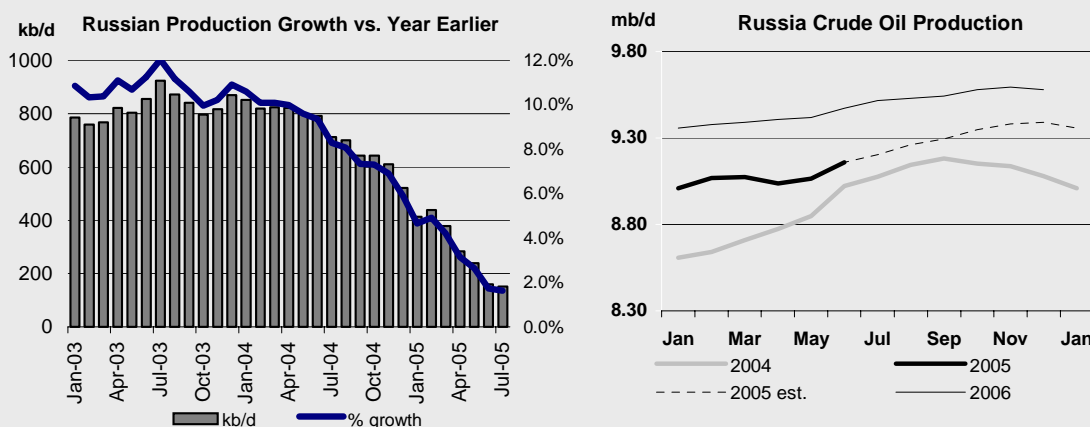
## Russian Oil Production: The Riddle Remains Intact

*I cannot forecast to you the action of Russia. It is a riddle wrapped in a mystery inside an enigma: but perhaps there is a key. That key is Russian national interest. (Sir Winston Churchill, 1939)*

A recent IEA Secretariat visit to Moscow has highlighted the complexity of the issues facing the Russian upstream sector and reinforced the relevance to the oil sector of Winston Churchill's words from over half a century ago. The following key impressions emerged from discussions with government, oil companies and analysts, although consensus was frequently elusive:

**Government Control:** After the laissez faire period of the past decade and the rise of the oligarchs, the Kremlin is seen as re-establishing state control over national resources. This covers all phases from licensing terms through production to exports. Control over domestic and near-abroad energy infrastructure is seen as a key national interest. Consequently, new foreign investment in Russian oil could be limited to a small number of larger operators willing to take minority stakes in large projects.

**New Subsoil Law and Licence Terms:** The proposed new subsoil law will limit foreign company participation to 49% in as-yet undefined strategic fields. This may not come into force until late-2006 or 2007, and is not seen in itself as a substantial impediment to investment. Moves by the Natural Resources Ministry to enforce existing field licences could cut both ways for short-term production. Rigorous enforcement of existing production licences, framed before the application of modern reservoir management techniques, could curb production substantially. But this is balanced by the potential for the authorities to re-allocate licences for currently idle production assets.



**Upstream Industry Structure:** The hiatus in upstream sector investment is seen as resulting largely from manoeuvring by key domestic operators intent on buying up the assets of companies wielding less influence with government. This reduces focus on organic growth and could impede production for the next one to two years at least. While the stars of Gazprom, Rosneft, Lukoil and BP-TNK may be rising, prospects for other producers are less certain. Debt and legal issues facing the former two could further divert attention from production growth. Many of those questioned see consolidation ultimately leaving Russian production controlled by three to four main players.

**Tax Reform:** The current export tax regime favours products exports over crude. Crude exports by expensive rail and river routes have taken a hit, having earlier been a key outlet for rapidly rising production. With crude export duties of \$140/tonne versus \$60/tonne for products, one consequence may be the long-overdue upgrading of hitherto unsophisticated Russian refineries. The government recognises the need for reform of production taxes, with small, non-integrated operators lobbying hard for tax differentiation to take account of mature and small-scale fields. Up to 380,000 wells are idle in Russia, seen in part due to an insensitive tax regime. Finalising the new law will take time.

**The 'Mixed Blessing' of High Prices:** As in other producing countries, there is a perception that high prices are shielding the government from the imperative of fiscal and regulatory reform. Production growth may be slowing but revenues remain high. However, there are positive signs after the 'lost year' of 2004. The government estimates that oil sector investment grew by 13% in first quarter 2005 and 20% is projected for the year as a whole.

The recent slow-down in Russian supply growth has been noted before (see above). Partly in light of actual performance in the first half of 2005 and provisional indications for July, production estimates have been revised down by 35 kb/d for 2005, to average 9.5 mb/d. This lower base, allied to the potential hiatus in upstream investment now seen for key producers (including Gazprom, Sibneft and Rosneft), also adversely impacts 2006 production. Projected 2006 supply is cut by 135 kb/d, to 9.8 mb/d. Russian oil production will grow much more slowly than in 2000-2004. It should nonetheless continue to increase by 2-3% during 2005-2006, in line with the latest projections from the Federal Enerav Agency and the Ministry of Economic Development and Trade.

In all, Brazilian crude output is expected to rise by 200 kb/d in 2005 and 230 kb/d in 2006, taking average production to 1.7 mb/d and 1.9 mb/d respectively. The 2005 total is largely unchanged from last month's estimates, although 2006 comes in 25 kb/d lower. This is due to the Jubarte expansion delay and lower than expected supply from Shell's Bijupira-Salema fields, where output seems to be levelling off around 50 kb/d rather than an earlier estimated 80 kb/d.

**Revisions to other non-OPEC estimates:** Non-OPEC supply in total has been revised down by 205 kb/d for 2005 and by 370 kb/d for 2006. The bulk of the revision is accounted for by OECD production and Russia and is discussed above. However, modest revisions to the forecast are recorded elsewhere and are worth mention here.

Higher than expected aggregate production data for **China** in June lead to a 10-15 kb/d increase in forecast output for 2005 and 2006. However, revisions are mainly downward elsewhere in Asia, with **India, Malaysia, Thailand** and **Vietnam** revised down by a collective 50 kb/d for 2005 and by 15 kb/d for 2006. The 2005 reduction hinges in large part on developments in India where one of the offshore platforms at the Bombay High field was destroyed by fire in July. This will result in a loss of over 100 kb/d of production for August, but gradual production recovery is assumed for September and October as output is re-routed using adjacent platforms.

Expectations for **Colombia** and **Ecuador** have been cut by a combined 15 kb/d in 2005 and 35 kb/d in 2006. Despite signs of an improved investment environment in the former, the government has cut its own expectations for 2005 production and we have extended the resultant drop in production through to 2006, when production averages 500 kb/d. The spin off from completion of the OCP pipeline in Ecuador appears to have run its course, and production is now envisaged to level off in 2006 close to the 2005 average of 550 kb/d.

### Revisions to Non-OPEC Oil Supply

(million barrels per day)

	Last Month's OMR			This Month's OMR			This Month vs. Last Month		
	2005	2006	06 vs. 05	2005	2006	06 vs. 05	2005	2006	06 vs. 05
North America	14.66	14.82	0.16	14.61	14.83	0.22	-0.05	0.00	0.06
Europe	5.85	5.70	-0.15	5.75	5.49	-0.25	-0.10	-0.20	-0.10
Pacific	0.57	0.56	-0.01	0.57	0.57	0.00	0.00	0.01	0.01
<b>Total OECD</b>	<b>21.08</b>	<b>21.08</b>	<b>0.00</b>	<b>20.93</b>	<b>20.89</b>	<b>-0.04</b>	<b>-0.15</b>	<b>-0.18</b>	<b>-0.03</b>
Former USSR	11.63	12.22	0.59	11.60	12.09	0.49	-0.03	-0.13	-0.10
Europe	0.16	0.15	-0.01	0.16	0.15	-0.01	0.00	0.00	0.00
China	3.61	3.61	-0.01	3.62	3.62	0.00	0.01	0.01	0.00
Other Asia	2.79	2.88	0.10	2.74	2.86	0.13	-0.05	-0.02	0.03
Latin America	4.30	4.53	0.23	4.32	4.50	0.18	0.02	-0.04	-0.05
Middle East	1.79	1.72	-0.07	1.81	1.75	-0.07	0.02	0.03	0.00
Africa	3.76	4.30	0.54	3.74	4.27	0.52	-0.02	-0.04	-0.02
<b>Total Non-OECD</b>	<b>28.04</b>	<b>29.42</b>	<b>1.37</b>	<b>27.99</b>	<b>29.23</b>	<b>1.24</b>	<b>-0.05</b>	<b>-0.18</b>	<b>-0.13</b>
Processing Gains	1.86	1.90	0.04	1.86	1.90	0.04	0.00	0.00	0.00
<b>Total Non-OPEC</b>	<b>50.98</b>	<b>52.40</b>	<b>1.41</b>	<b>50.78</b>	<b>52.03</b>	<b>1.25</b>	<b>-0.20</b>	<b>-0.37</b>	<b>-0.17</b>

OMR = Oil Market Report

Revised Oil Ministry data for **Oman** in 2004 result in a 20 kb/d upward revision to production for 2004-2006. Nonetheless, oil production is still expected to decline by 50 kb/d from 2004's 785 kb/d by 2006. Higher estimates for Angola are countered elsewhere in Africa by downward revisions for 2005 and 2006 affecting **Egypt, Ivory Coast, Sudan** and **Tunisia** which amount to a combined 40-45 kb/d. Estimates for Egyptian condensate and LPG potential are revised down following recent monthly actuals. Ivory Coast and Tunisia have been revised in light of recently received, lower official annual data. In Sudan, the adjustment comes after apparent delays in start up of production of Dar Blend crude, which we now assume starts in September rather than an originally planned July.

# OECD STOCKS

## Summary

- **OECD total industry oil stocks** in June were little changed from May, increasing by 110 kb/d with gains in North American 'other product' inventories outpacing declines elsewhere. The overall build in oil inventories in the second quarter came to 1.32 mb/d, above the five year average of 900 kb/d. The second quarter saw inventory gains led by product stocks, which rose by 940 kb/d, while increases in crude came to 320 kb/d. Days of forward demand cover by industry stocks remained stable against May at 54 days, 2 days higher than a year ago.

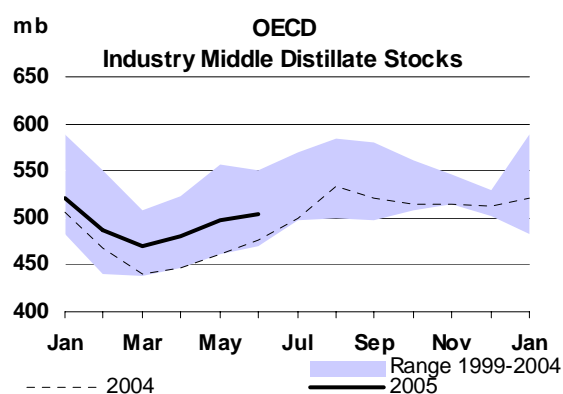
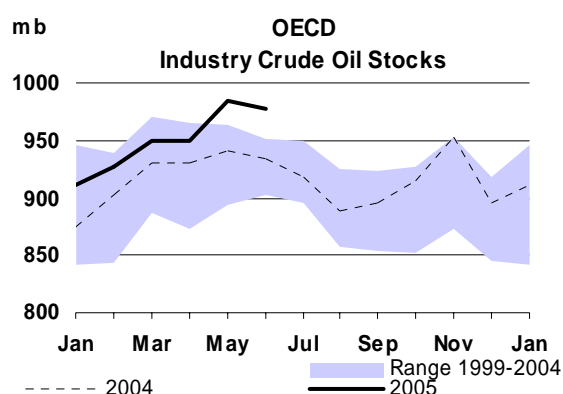
### Preliminary Industry Stock Change in June 2005 and Second Quarter 2005

(million barrels per day)

	June (preliminary)				Second Quarter 2005 (preliminary)			
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total
<b>Crude Oil</b>	<b>-0.14</b>	<b>-0.08</b>	<b>-0.03</b>	<b>-0.25</b>	<b>0.15</b>	<b>0.15</b>	<b>0.01</b>	<b>0.32</b>
Gasoline	-0.05	-0.08	-0.08	-0.20	0.01	-0.09	-0.02	-0.10
Distillates	0.35	-0.05	-0.12	0.18	0.18	0.08	0.11	0.37
Residual Fuel Oil	0.01	-0.04	-0.04	-0.07	-0.04	0.07	0.03	0.06
Other Products	0.52	0.00	0.04	0.55	0.57	-0.03	0.07	0.61
<b>Total Products</b>	<b>0.83</b>	<b>-0.16</b>	<b>-0.20</b>	<b>0.47</b>	<b>0.73</b>	<b>0.02</b>	<b>0.19</b>	<b>0.94</b>
Other Oils <sup>1</sup>	-0.06	-0.03	-0.02	-0.11	0.02	-0.02	0.07	0.06
<b>Total Oil</b>	<b>0.63</b>	<b>-0.27</b>	<b>-0.25</b>	<b>0.11</b>	<b>0.90</b>	<b>0.14</b>	<b>0.27</b>	<b>1.32</b>

<sup>1</sup> Other oils includes NGLs, feedstocks and other hydrocarbons

- **OECD industry crude stocks** fell a little over 7 mb in June to 978 mb, but closed 44 mb above last year. With ample supplies, the Atlantic Basin only saw a 6.5 mb decline in the face of rising refinery runs. In the Pacific, crude inventories trended sideways as stock changes in Korea and Japan roughly offset each other. The US saw crude inventories extend their decline through July. The decline proved to be modest as refinery utilisation rates fell in the middle of July from the peaks reached late June due to weather-related plant closures and unplanned outages.
- **OECD industry distillate stocks** increased in June by 5.5 mb, the build centred in North America. While relatively unchanged, European inventories continued to trend in the upper-end of their five-year range. Storing middle distillate fuels in both regions was supported by a deep contango in NYMEX heating oil and IPE gasoil futures. Trends were mixed between distillate categories in the Pacific, but stocks fell on draws in both Japan and Korea.
- **OECD industry gasoline stocks** fell 6 mb with the decline about evenly distributed across regions. European inventories declined along seasonal trends. Though arbitrage economics from Europe were intermittent in June, cargoes continued to be shipped to the US. Gasoline stocks in the US in June held about level as imports boosted blending component inventories offsetting declines in finished gasoline stocks. In July, US gasoline stocks fell seasonally, the draw accelerating by end-month. Gasoline demand rebounded while weather related closures and refinery glitches at gasoline producing units lowered domestic output.

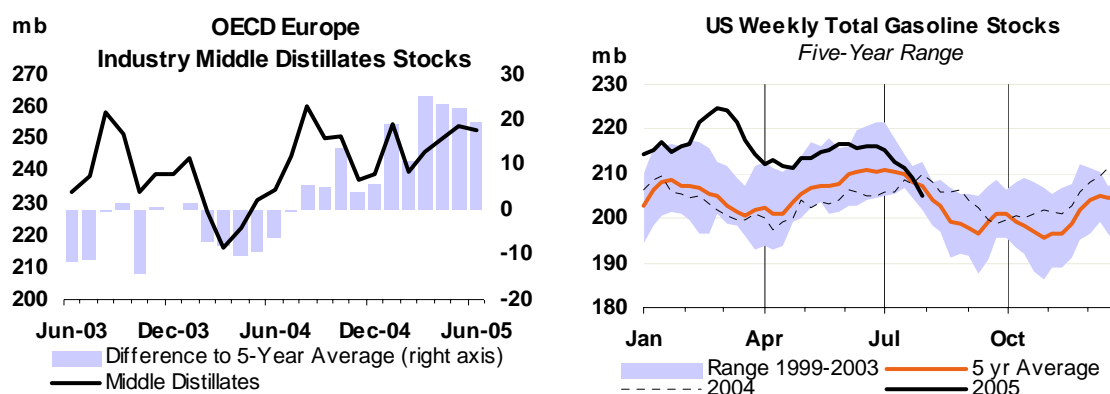


## OECD Industry Stock Changes in June 2005

### OECD North America

US-50 crude oil stocks fell from June to July as refineries emerged from maintenance and raised throughputs to meet summer gasoline demand and rebuild distillate inventories ahead of winter. The rate of draw proved moderate in July. Refiners scaled back runs from the near-capacity utilisation rates reached in early July following plant closures related to weather or unplanned outages. At the same time, shipping delays or supply losses associated with the start of the hurricane season had a moderate impact on average import levels. Crude stocks closed July at 318 mb, or 23 mb above 2004. Prompt availability of crude in the US continues to support a contango in NYMEX light sweet crude futures. At the same time, the widening of price spreads for WTI against Brent at the end of June and early July is likely to support further arrivals of Brent-related crude to the US.

US gasoline stocks held about level in June before falling seasonally in July. The draw quickened in July, pushing forward demand cover to the lower end of the five-year range. While lower refinery runs reduced product output, product yield favoured distillates. Crack spreads for heating oil futures rivalled those for gasoline into mid-July. The draw was also supported by seasonally firm gasoline demand. Diesel and heating oil stocks rose seasonally, ending above their five-year average by the end of July but forward demand cover continued to lag average levels for the period. The build was supported by the contango in NYMEX heating oil futures that has steadily widened since June. Higher diesel output accounted for most of the recent build, alongside declining distillate demand. Further improvements in the product balances will depend on refinery utilisation rates in the face of recent outages and projected heavy autumn maintenance.



### OECD Europe

European industry crude stocks were down only 2 mb in June despite increased runs as refineries emerged from maintenance. Supplies remained ample and crude stocks closed in June at 361 mb or 22 mb above a year ago. With the end of maintenance, July is expected to see a rise in crude runs and inventories, accumulated with the support of a contango in Brent prices, should decline. The contango in the forward Brent cash market narrowed for most of July, indicating higher interest in prompt supplies. Buying interest from European refiners, mindful of competition from the US, has reportedly extended forward the trading range of cargoes. Loading dates are traded further ahead compared to a shorter window seen when prompt supplies were more ample. Gasoline stocks declined seasonally following ongoing exports to the US and Nigeria offsetting weak demand. Middle distillate stocks closed down 1.4 mb but demand cover kept within recent averages. Weak gasoil demand left distillate inventories to trend in the upper end of their five-year range, ending 19 mb above year ago levels.

### OECD Pacific

Pacific crude stocks edged lower in June, mainly on draws in Korea where crude imports have come down since the peaks reached in March. Stocks in Japan managed a 0.5 mb build despite a seasonal rebound in runs, but the increase came from an expected downward revised May base. Overall crude stocks in the Pacific region closed below their five-year range at 170 mb, or 6 mb below 2004. The trend in weekly Japanese data during July indicate that onshore crude stocks continued to decline, reflecting steady throughputs from June and likely lower imports of crude oil. Both distillate and gasoline stocks were down in the Pacific in June. Japan saw the steeper decline in gasoline stocks while distillates were lower mainly on draws in Korea. Distillate stocks in Korea fell about 2.5 mb and by 1.2 mb in Japan in June. Gasoline stocks in Japan trended down from June to July as demand firmed while domestic output declined as refiners skewed yields towards distillates.

## OECD Inventory Position at End-June and Revisions to Preliminary Data

Revisions to industry oil stocks raised May preliminary estimates by 7 mb. Revisions to crude and product stocks cancelled each other out leaving upwards revisions to NGLs and feedstock to lift inventories higher. In distillate stocks, the Atlantic Basin saw offsetting adjustments between Europe and North America. US inventories were revised higher both in diesel and heating oil following weaker demand in May. In contrast, Europe saw downward revisions mainly in Germany. Gasoline inventories were revised on average close to 1 mb lower across OECD regions.

### Revisions Versus 13 July 2005 Oil Market Report

	(million barrels)							
	North America		Europe		Pacific		OECD	
	Apr 04	May 05	Apr 04	May 05	Apr 04	May 05	Apr 04	May 05
<b>Crude Oil</b>	<b>-1.1</b>	<b>0.2</b>	<b>-0.8</b>	<b>7.2</b>	<b>0.0</b>	<b>-9.5</b>	<b>-2.0</b>	<b>-2.1</b>
Gasoline	-1.1	-0.6	1.2	-1.7	0.0	-0.8	0.1	-3.2
Distillates	2.1	4.1	-3.1	-4.0	0.0	-0.5	-1.0	-0.3
Residual Fuel Oil	0.4	1.1	-2.6	2.7	0.0	-0.1	-2.2	3.7
Other Products	-2.6	5.8	-2.1	-3.5	0.0	-0.6	-4.7	1.8
<b>Total Products</b>	<b>-1.2</b>	<b>10.4</b>	<b>-6.6</b>	<b>-6.5</b>	<b>0.0</b>	<b>-1.9</b>	<b>-7.8</b>	<b>2.0</b>
Other Oils <sup>1</sup>	-0.6	6.9	1.5	0.1	0.0	0.3	0.9	7.4
<b>Total Oil</b>	<b>-2.9</b>	<b>17.6</b>	<b>-5.9</b>	<b>0.8</b>	<b>0.0</b>	<b>-11.1</b>	<b>-8.8</b>	<b>7.2</b>

<sup>1</sup> other oils includes NGLs, feedstocks and other hydrocarbons

OECD industry stocks ended in June at 2669 mb, 127 mb above a year ago. Product inventories, with a surplus of just under 85 mb, accounted for most of this difference. Crude stocks were up by nearly 44 mb over 2004 but NGLs and feedstocks were down 1.1 mb. Although average OECD product demand has been adjusted higher over the next 3 months, the upward revision to May stocks along with the build in June kept forward demand cover even in June from May at 54 days. On a regional basis, forward demand cover came to 50 days in North America, 62 in Europe and 51 in the Pacific.

### Year-on-Year Industry Stock Comparisons for June 2005

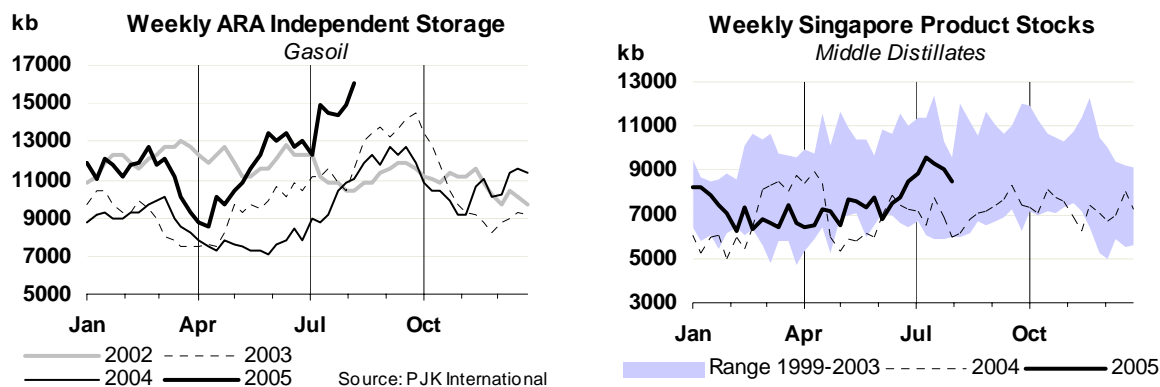
	(million barrels)				(Days of Forward Demand)				
	North America	Europe	Pacific	Total	North America	Europe	Pacific	Total	
<b>Crude Oil</b>	<b>28.2</b>	<b>21.6</b>	<b>-6.2</b>	<b>43.6</b>	<b>Total Oil</b>	<b>2.6</b>	<b>2.6</b>	<b>-0.8</b>	<b>2.0</b>
Total Products	63.0	21.8	-0.3	84.6	<i>Versus 2003</i>	1.6	3.3	-6.4	0.8
Other Oils <sup>1</sup>	-4.6	2.1	1.4	-1.1	<i>Versus 2002</i>	-2.4	1.1	-4.3	-1.7
<b>Total Oil</b>	<b>86.7</b>	<b>45.5</b>	<b>-5.1</b>	<b>127.1</b>	<b>Total Products</b>	<b>2.1</b>	<b>1.2</b>	<b>-0.1</b>	<b>1.4</b>
<i>Versus 2003</i>	94.3	61.8	-37.9	118.3	<i>Versus 2003</i>	1.1	1.2	-3.0	0.4
<i>Versus 2002</i>	17.9	32.2	-32.1	17.9	<i>Versus 2002</i>	-1.2	-1.3	-2.9	-1.6

<sup>1</sup> other oils includes NGLs, feedstocks and other hydrocarbons

### Recent Developments in ARA Independent Storage

Differences in forward prices in paper markets helped to explain contrasting trends between distillate and gasoline storage in July. Gasoil and jet fuel inventories continued to climb on rising supplies and weak spot demand. Regional supplies of gasoil grew on higher output from refiners emerging from maintenance and supplies from the FSU where stocks at key terminals were reported high. Ample supplies held down cash premiums against paper quotes at June levels. But in the face of weak inland demand from key barge markets, gasoil was moved into storage, supported by a strong contango in IPE gasoil futures. Jet stocks increased along similar dynamics, and inventories are likely to be supported at the higher end of their range with incoming supplies from the Middle East. Up to 900 000 tonnes of Middle Eastern jet fuel were reported loaded in July for western destinations, the bulk of which was headed to Europe. In contrast, gasoline stocks fell markedly by end-month. The movement of product out of storage was encouraged by a deepening of the backwardation in swap prices for unleaded gasoline in Northwest Europe. Exports to Nigeria helped to bring supplies down. Shipments to the US continued despite, at times, unfavourable spot arbitrage economics in the first half of July. In light of contracting regional demand for gasoline, the barge market also provided an outlet for sales out of storage. Demand emerged from the UK at the end of the month while an outage at the Pernis refinery in Rotterdam led to refiner buying to cover prompt requirements.

Fuel oil stocks quickly rebuilt during July despite shipments of Russian straight-run fuel oil to the US for use as refinery feedstock. Incoming supplies of cracked material from the FSU accumulated in storage as arbitrage opportunities to ship product to Asia remained closed during the month. Stocks of fuel oil in Singapore have been trending at high levels under the weight of incoming supplies from the West, thin Chinese demand and weaker bunker demand. The build in ARA fuel oil stocks, as in the case of distillates, was supported by a contango in forward swap prices.



### Recent Developments in Singapore Stocks

Total product stocks in Singapore surveyed by *International Enterprise* closed lower in July, driven by declines in light product stocks (gasoline and naphtha). Inventories of distillates and fuel oil initially posted gains before falling back at the end of the month. Middle distillates held on to levels reached by end-June. Prompt regional supplies of kerosene and gasoil improved as high international market prices encouraged greater exports in neighbouring countries. Despite higher Indonesian demand, greater availability of gasoil supplies pushed prices of cargoes from key exporter Korea into deep discounts against Singapore quotes while Singapore paper prices for gasoil moved firmly into contango. A similar trend appeared to emerge in jet/kerosene. Regional availabilities had risen on strong margins for distillates. Yet, despite steady demand reported from India, jet/kerosene prices temporarily fell below gasoil prices early July before regaining their usual premium later in the month. The accumulation of jet in storage, however, likely decelerated with Middle Eastern supplies being diverted towards western destinations.

Fuel oil inventories edged higher during July and continued to trend at the top of their range. Supplies were ample on arrivals from the West and muted Chinese demand. This pushed prompt paper prices in Singapore below forward ones. Stocks will likely remain high in the absence of a strong resumption of Chinese buying interest. Early indications are that imports into China's main Huangpu terminal for August will near a million tonnes, about the same volume as in July, but with less material sourced from Korea. Light product stocks tightened on lower supplies, leading naphtha paper prices to flip into backwardation after posting a strong contango in June. Gasoline exports from China and Taiwan were reduced while Indonesian demand firmed. Naphtha exports from India, that supported ample supplies in recent months, reportedly slackened while Middle Eastern supplies were diverted West.

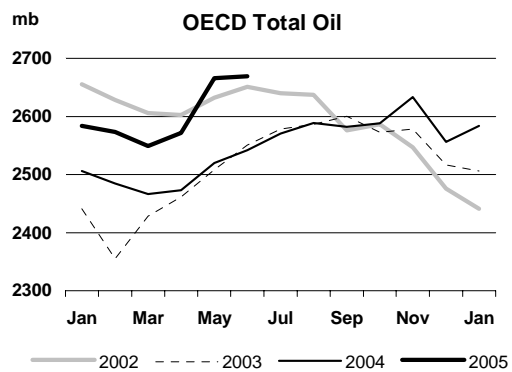
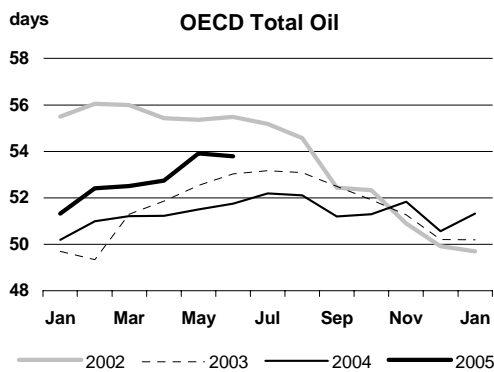
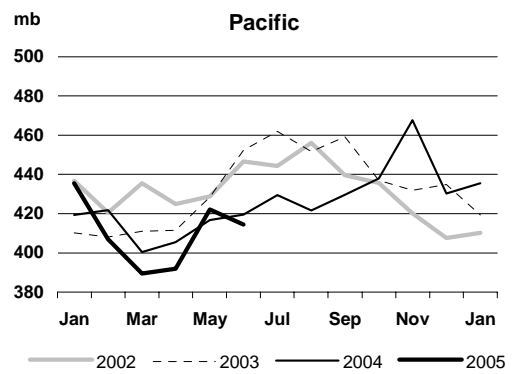
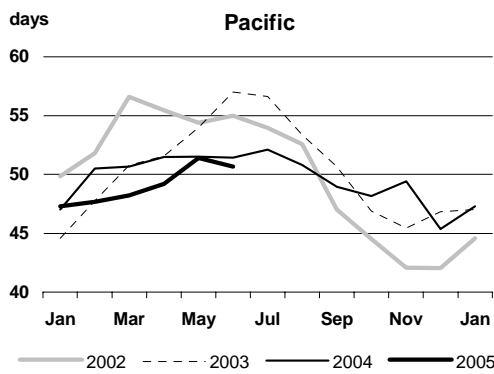
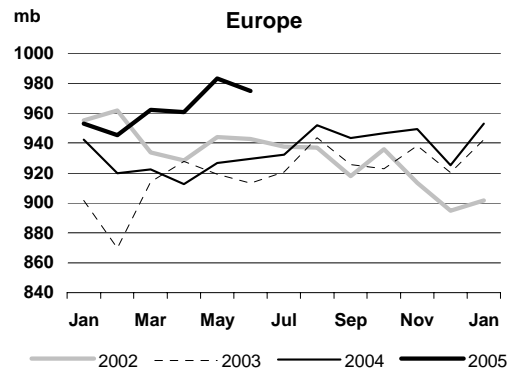
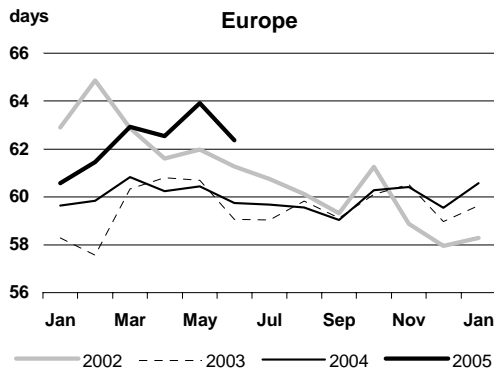
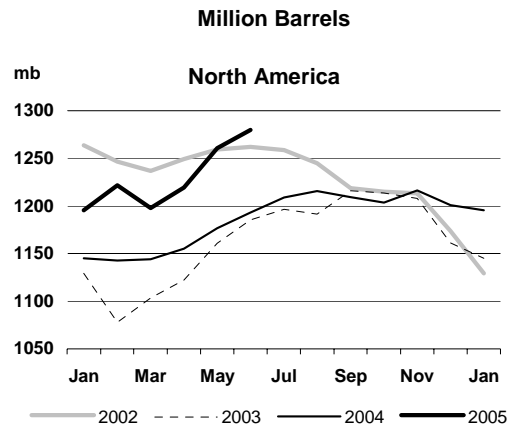
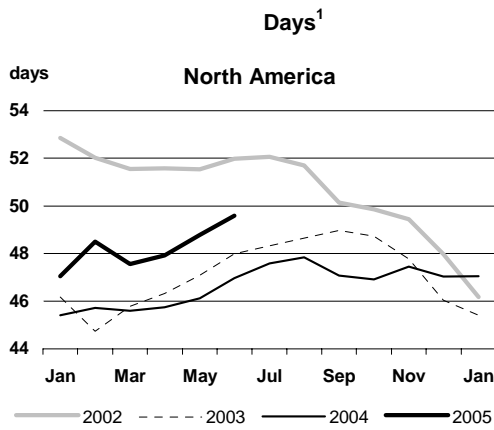
### Singapore Crude & Product Trade

(thousand barrels per day)

Net Imports/(Exports) of:	2003	2004	3Q04	4Q04	1Q05	2Q05	Apr 05	May 05	Jun 05	Latest month vs. May 05 Jun 04	
<b>Crude Oil</b>	755	815	727	1059	1266	980	815	1014	1110	97	413
<b>Products &amp; Feedstocks</b>	-96	-136	-118	-211	-216	-328	-126	-442	-412	30	-164
Gasoil/Diesel	-170	-182	-181	-206	-187	-216	-157	-224	-269	-45	-79
Gasoline	-83	-96	-79	-98	-80	-139	-64	-162	-191	-29	-38
Heavy Fuel Oil	320	276	238	272	236	176	205	80	245	165	28
LPG	-22	-22	-20	-24	-20	-21	-17	-21	-25	-4	0
Naphtha	13	31	42	21	36	23	48	29	-8	-37	-26
Jet & Kerosene	-99	-86	-92	-102	-132	-78	-69	-70	-95	-25	-58
Other	-55	-57	-26	-74	-69	-72	-73	-75	-70	5	9
<b>Total</b>	<b>659</b>	<b>679</b>	<b>609</b>	<b>848</b>	<b>1051</b>	<b>652</b>	<b>689</b>	<b>572</b>	<b>699</b>	<b>127</b>	<b>249</b>

Source: International Enterprise, IEA estimates

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

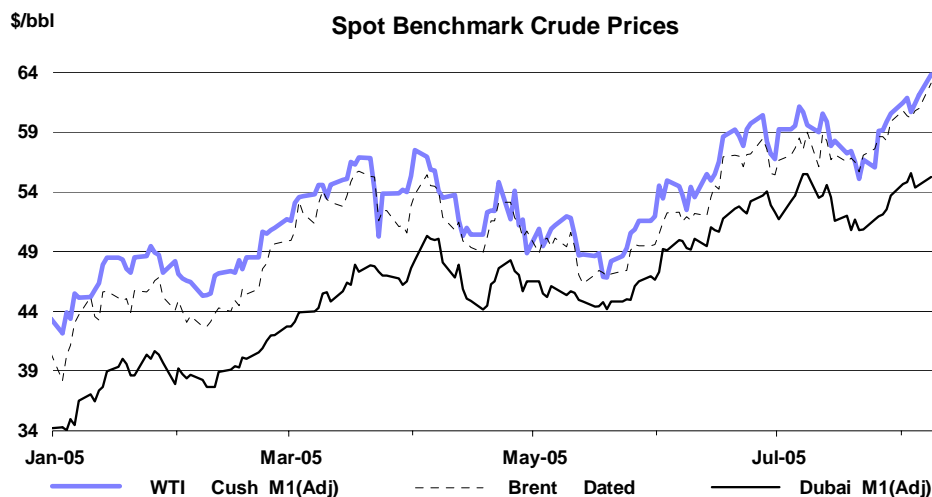


<sup>1</sup> Days of forward demand are based on average demand over the next three months.

# PRICES

## Summary

- **NYMEX WTI** pushed above \$64/bbl on geopolitical issues in the Middle East, a series of upstream and downstream disruptions and the beginning of an active tropical storm season. Upward price pressure from these upsets was compounded by refiners cranking up production to meet peak summer demand for transportation fuels. Security concerns in Saudi Arabia were the most recent geopolitical factor to hit headlines, although the markets were swift to recognise that there was no real oil market impact from the death of Saudi Arabia's King Fahd. Uncertainty over the level of future supply and demand has been compounded by contradictory signals from OPEC.
- **US gasoline** prices rose sharply following a series of refinery problems and continued strong seasonal demand. Although the traditional end to the summer driving season is merely three weeks away, US gasoline stocks have been falling at a faster rate than normal, dropping below the five-year average in early August. This has raised concerns over supply levels ahead of heavy US autumn refinery maintenance.
- **Distillate** prices underperformed gasoline and crude as refiners focused on gasoil production ahead of the winter. Sharp rises were seen in diesel stocks in the US and in independent storage in ARA, while higher-than-expected exports from China and Japan weakened Asian differentials to regional crudes.
- **Light sweet crudes** were in strong demand in the Atlantic Basin, dragged up by strong gasoline demand. West African crudes were sought after in Northwest Europe and the US, but did not face excessive competition due to a weaker Asian market for much of July. However, the fire at the Bombay High platform has increased Indian activity in the West African crude market recently. Sour crudes in the Atlantic Basin had to compete with displaced crudes from Asia. Oman was offered in both Northwest Europe and the US Gulf Coast.
- **VLCC rates** from the Arabian Gulf to Asia and the US trended higher in July in line with higher refinery runs in Asia, increased OPEC westbound sailings and continued high bunker fuel prices in the Middle East. Clean rates remained largely unchanged from end-June levels.



## Crude Oil Prices

### Spot Crude Prices and Differentials

Benchmark crude prices rallied from the middle of July, with both Brent and WTI topping \$63/bbl on the back of a plethora of bullish headlines. Production problems in the North Sea and India were exacerbated by concerns over a very active start to the hurricane season. Refinery problems in the US and Europe and seasonal demand tightened the gasoline market, but were offset partly by the swift recovery of US distillate stocks to the upper-end of the five-year range.

**Spot Crude Oil Prices and Differentials\***

(monthly and weekly averages, \$/bbl)

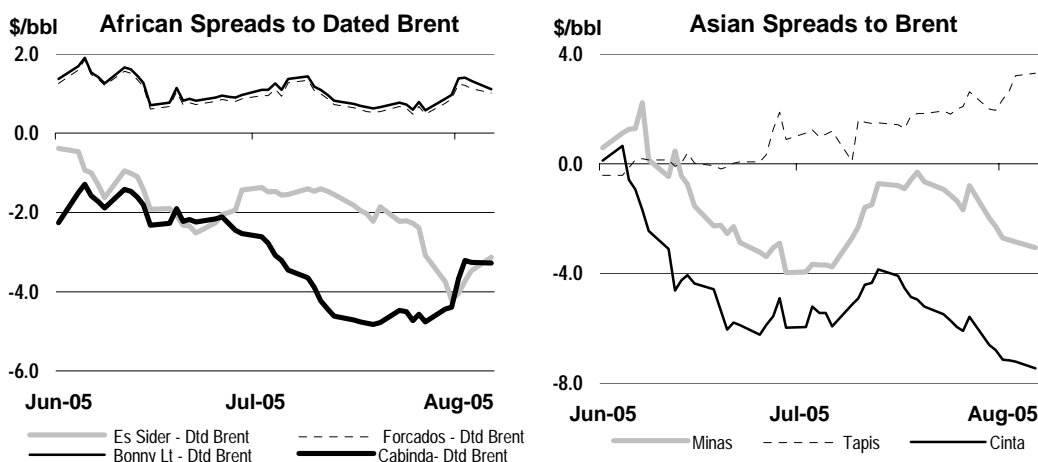
	May 05	Jun 05	Jul 05	Jul-Jun		Week Commencing:				
				Change	%	04 Jul	11 Jul	18 Jul	25 Jul	01 Aug
<b>Crudes</b>										
Brent Dated	48.56	54.39	57.58	3.19	5.9	57.97	57.41	56.52	58.60	60.63
WTI Cushing 1 month (adjusted)	49.84	56.36	58.68	2.32	4.1	60.25	59.12	56.60	58.95	61.52
Urals (Mediterranean)	45.80	51.66	55.02	3.36	6.5	55.15	55.09	54.24	55.88	56.10
Dubai 1 month (adjusted)	45.40	51.08	52.83	1.75	3.4	54.52	53.39	51.23	52.39	54.81
Tapis	50.79	55.86	59.70	3.83	6.9	60.90	59.67	58.54	60.08	63.46
<b>Differential to Dated Brent</b>										
WTI Cushing 1 month (adjusted)	1.28	1.98	1.10	-0.88		2.28	1.71	0.08	0.35	0.89
Urals (Mediterranean)	-2.76	-2.72	-2.56	0.16		-2.83	-2.32	-2.28	-2.73	-4.53
Dubai	-3.16	-3.30	-4.75	-1.45		-3.45	-4.02	-5.28	-6.21	-5.82
Tapis	2.24	1.48	2.12	0.64		2.93	2.26	2.03	1.48	2.83
<b>Prompt Month Differential</b>										
Brent 1mth-2mth (adjusted)	-0.61	-0.69	-0.72	-0.03		-0.75	-0.68	-0.69	-0.72	-0.72
WTI Cushing 1mth-2mth (adjusted)	-1.25	-0.81	-1.21	-0.91		-0.88	-1.60	-1.36	-0.91	-0.91

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

Geopolitical issues were headed by security warnings in Saudi Arabia, the death of King Fahd, the Iranian nuclear programme and ethnic unrest in Nigeria. However, despite the upward price path, OPEC appears reluctant to sanction an official increase in targets. Some members linked the additional volumes to upward price moves, but despite an \$11 rally, further discussion on output targets appears postponed until OPEC's September meeting.

The US has experienced strong demand for light sweet crude following a series of refinery problems, seasonal demand for transportation fuels and falling gasoline stocks. There is also some evidence of a desire to buy light sweet crudes ahead of autumn refinery maintenance when additional desulphurisation capacity will be installed. This has coincided with weaker North Sea production, which has similarly encouraged movement of North and West African crudes into Northwest Europe.

The movement of West African crudes into the three main consuming regions, Europe, US and Asia, makes it central to price formation. Arguably, the upward price pressure from US and European competition for such crudes would have been more significant if it had not been for an offsetting decline in Asian demand for much of July. To emphasise this point, the early-August rise in prices also coincided with increased buying by India to offset production losses from the fire-damaged 125 kb/d Bombay High platform.



Tanker loading data indicate shipments of West African crude to Asia of just under 1.5 mb/d from March to May. However, loadings dropped to under 1 mb/d in June, and trade reports suggest that these volumes have persisted. Preliminary August data showed shipments of under 900 kb/d, which is around 30% below year ago volumes, but are likely to have been bolstered by recent Indian buying.

While West African shipments to Asia are generally lower in the third quarter than the first half of the year, they are somewhat weaker than would have been expected.

Differentials have moved to reflect these trends, with Dated Brent stabilising at a \$1 discount to WTI for the past few weeks. This differential restricts the movement of North Sea crudes to the US, keeping them in Europe where they are needed to meet local demand. Similarly, the premium of West African spreads to dated Brent highlight the strength of light sweet crudes, relative to medium and heavy, sweet crudes. US Gulf Coast refiners have been strong buyers of Bonny Light and Forcados crudes, which have maintained a strong premium to dated Brent. But the lack of Chinese demand has undermined Cabinda differentials which fell from a discount of \$2.45/bbl to dated Brent to under \$4.82 before the Bombay High accident increased Indian demand.

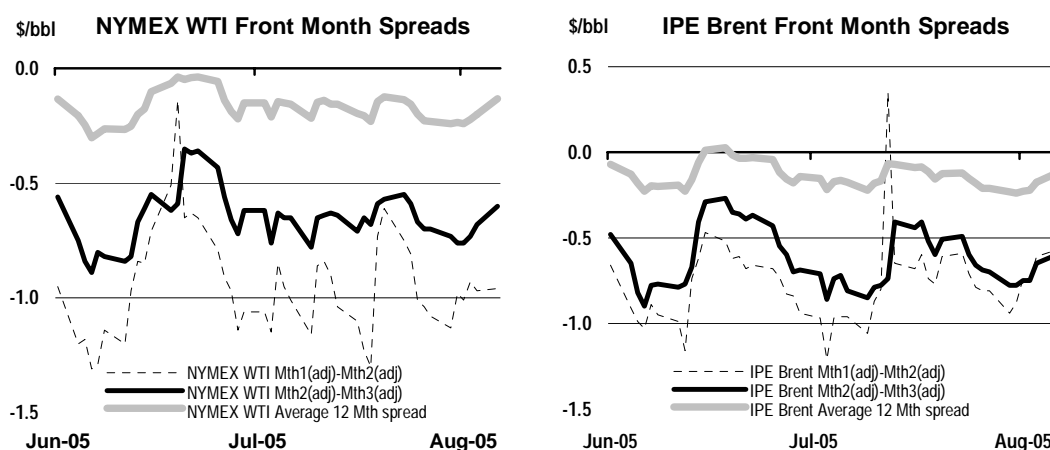
Asian crudes Minas and Cinta have followed a broadly similar pattern to Cabinda, pressured by fuel oil and gasoil weakness, while Tapis has benefited from a tighter Asian gasoline market.

Fuel oil weakness was also evident in Europe and the US, as refiners maximised throughput to meet light product demand. This weighed on heavier, sour crudes in particular, causing Urals and Dubai to move to a wider discount from the middle of July. Urals also faced increased competition from displaced Oman and other Middle East grades in the face of weaker Asian demand. Increased Iraqi exports were also seen from the Turkish port of Ceyhan, but it was unclear whether these would be sustainable in the light of erratic flows along the northern pipeline. Oman was also reported to have moved to the US Gulf Coast for the first time in a decade.

### Crude Futures

North Sea and Gulf of Mexico production problems prompted a temporary narrowing of the forward contango in nearby crude prices in early July. Since the end of 2004, the impact of growing stocks has been to push the contango (or nearby discount to the next month) forward. Normally this would impact longer-term prices, but upward pressure on prices over a year ahead (due to lack of producer selling and airline, utility and refiner hedge buying) has resulted in offsetting upward pressure on spot prices.

As stocks increase and storage fills, spot discounts can only be increased by the contango extending further forward. At the time of writing, the Brent contango had been stretched to include each of the first eight forward months. There was also a noticeable narrowing of spreads through to 10 months forward in the latter part of July.



This development is consistent with increasing stock levels and robust medium-term prices. But it also raises the question of sustainability. There are few commodity markets, with the exception of gold, that have sustained high prices and contangos for any period of time. In the case of gold, the contango has been maintained by the existence of very large holdings in central bank reserves and their willingness to lend metal to the market.

There is little similarity between oil and gold, but the stock holding issue is important. When central banks are either maintaining reserves or liquidating them in a transparent and orderly fashion, there is little price pressure. However, should any major gold-holding central bank decide that it will sell its reserves then prices will fall.

Similarly in oil, high prices and contango can be sustained for as long as refiners and traders are prepared to hold stocks. They could start to use these stocks to enable them to be more choosy about price levels. Or, they might feel that the market conditions that prompted the stock holdings have changed and could lower inventory holdings or sell forward. This could result in a shift in the forward price structure and, by implication, the spot price could also change.

### Delivered Crude Prices in May

Delivered crude prices for IEA countries decreased on average in May, with the exception of IEA Pacific where prices increased by \$0.45/bbl to average \$50.20/bbl for the month. Import costs for the IEA as a whole decreased by an average of \$1.83/bbl from April levels and reached \$46.28/bbl in May. The largest change was seen in Europe where prices fell by \$2.84/bbl to \$46.23/bbl. A more modest drop of \$2.14/bbl was seen in North America. The moves were largely in line with decreases seen in spot price movements, due in part to refinery maintenance and seasonally lower second-quarter demand.

## Product Prices

### Spot Product Prices

Fears of distillate tightness gave way to renewed concern over gasoline tightness in July as US stocks of the two products moved in opposite directions and a series of refinery glitches in Europe and the US heightened supply concerns. Fuel oil was depressed by a lack of Asian demand and high levels of production as refiners cranked up output to meet seasonal demand for both gasoline and diesel.

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

	May	Jun	Jul	Jul-Jun		Week Commencing:					May	Jun	Jul		
				Change	%	04 Jul	11 Jul	18 Jul	25 Jul	01 Aug					
<b>Rotterdam, Barges FOB</b>													<b>Differential to Brent</b>		
Premium Unleaded (Cargo)	57.27	63.29	69.56	6.27	9.9	69.31	68.53	69.99	71.05	73.25	8.72	8.90	11.98		
Regular Unleaded	56.40	62.16	68.09	5.93	9.5	67.91	67.11	68.43	69.51	71.76	7.84	7.77	10.51		
Naphtha	45.98	48.15	51.51	3.36	7.0	51.72	51.39	51.25	51.98	54.42	-2.57	-6.23	-6.07		
Jet/Kerosene	65.08	72.51	74.22	1.70	2.4	76.93	74.84	72.05	72.84	75.23	16.53	18.13	16.64		
Gasoil	59.57	68.67	70.52	1.85	2.7	73.37	70.80	68.38	69.21	70.96	11.01	14.29	12.94		
Fuel Oil 1.0%S	35.93	36.40	39.24	2.84	7.8	40.61	39.94	37.76	38.24	41.10	-12.62	-17.99	-18.34		
Fuel Oil 3.5%	35.23	36.35	38.28	1.93	5.3	39.69	38.76	37.16	37.76	38.46	-13.32	-18.04	-19.30		
<b>Mediterranean – Basis Italy, Cargoes FOB</b>													<b>Differential to Urals</b>		
Prem Unleaded (50ppm)*	55.38	61.51	65.21	3.70	6.0	66.28	63.91	64.84	66.25	69.09	9.59	9.85	10.19		
Naphtha	44.66	46.62	50.45	3.83	8.2	50.26	50.07	50.30	51.55	54.12	-1.13	-5.05	-4.57		
Jet/Kerosene	62.90	70.11	72.17	2.06	2.9	74.14	72.39	70.34	71.65	73.80	17.11	18.45	17.15		
Gasoil	58.42	67.71	69.68	1.97	2.9	72.26	70.06	67.43	68.76	71.06	12.62	16.05	14.66		
Fuel Oil 1.0%S	37.42	39.85	42.66	2.80	7.0	42.64	43.59	42.02	42.56	43.63	-8.38	-11.81	-12.36		
Fuel Oil 3.5%S	33.57	35.02	36.58	1.56	4.4	38.38	37.02	34.65	36.39	37.74	-12.23	-16.64	-18.44		
<b>NY Harbour, Barges</b>													<b>Differential to WTI</b>		
Super Unleaded	63.31	70.65	78.78	8.13	11.5	80.65	80.46	76.95	78.12	82.09	13.47	14.29	20.10		
Regular Unleaded	57.59	63.49	66.78	3.29	5.2	69.34	66.41	65.33	66.87	71.76	7.75	7.13	8.10		
Jet/Kerosene	62.26	70.80	70.53	-0.27	-0.4	73.75	71.03	67.82	69.79	72.17	12.42	14.44	11.85		
No.2 Heating Oil	59.16	67.72	68.65	0.93	1.4	72.60	69.68	65.42	67.25	70.00	9.32	11.35	9.97		
Fuel Oil 1.0%S (Cargo)	37.92	41.15	42.38	1.24	3.0	42.97	41.66	42.18	42.90	43.84	-11.92	-15.22	-16.30		
Fuel Oil 3.0%S (Cargo)	35.69	36.63	36.59	-0.04	-0.1	36.53	37.83	35.93	36.18	35.87	-14.15	-19.73	-22.09		
<b>Singapore, Cargoes</b>													<b>Differential to Dubai</b>		
Premium Unleaded 95	54.46	59.65	64.70	5.05	8.5	64.79	64.14	64.54	66.07	68.11	9.06	8.56	11.87		
Naphtha	44.76	45.71	49.62	3.90	8.5	49.20	49.34	50.24	50.42	53.30	-0.64	-5.37	-3.21		
Jet/Kerosene	63.39	68.93	70.07	1.14	1.7	72.25	70.00	68.52	69.69	72.15	17.99	17.84	17.24		
Gasoil	58.89	67.67	69.35	1.67	2.5	72.57	70.71	67.11	66.90	67.09	13.49	16.59	16.52		
LSWR (0.3%S)	40.06	45.64	49.64	4.01	8.8	49.45	49.10	49.05	51.62	51.18	-5.34	-5.45	-3.19		
HSFO (3.5%S 180cst)	38.89	40.41	41.43	1.02	2.5	43.68	41.83	39.69	40.65	41.09	-6.50	-10.67	-11.40		
HSFO 4%S	38.98	39.95	40.62	0.67	1.7	43.27	41.21	38.61	39.42	40.01	-6.42	-11.14	-12.21		

\* From January 2005 Premium Unleaded 50 ppm

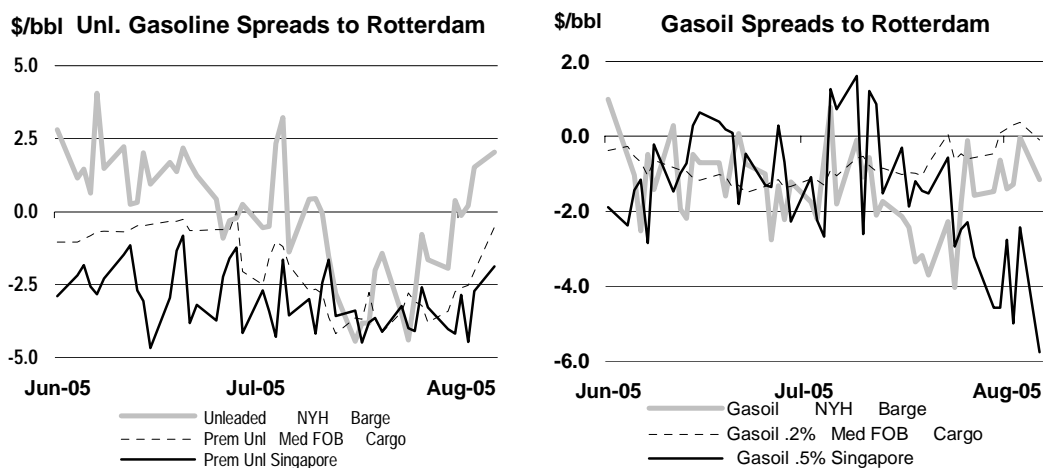
Gasoline prices rose sharply in all regions from mid-July, particularly in the US, where a series of refinery disruptions caused throughputs to briefly dip below 15.9 mb/d, 900 kb/d below weekly runs at the end of June. Disruptions were also seen in Europe, where refinery units were affected in Rotterdam and Italy. Refinery disruptions are common at this time of year as refiners try to maximise output to meet peak summer demand. However, the problems accentuated the normal seasonal stock draw, pushing US stocks from the top end of the five-year range to below the five-year average. The strengthening of US gasoline prices contributed to an opening of the arbitrage from Europe to the US, although traders said that a shortage of clean freight limited flows. European production has also centred on lower octane grades, with high MTBE prices implying a sharp cost differential between high and low octane grades.

While some fresh refinery problems have emerged, the market has to balance the lower level of US gasoline stocks with the pending end to the summer driving season in September. Refiners can also rebalance yields away from maximum diesel towards higher gasoline output. However, with reports of heavy maintenance scheduled for the autumn, the potential for further stock draws is increased.

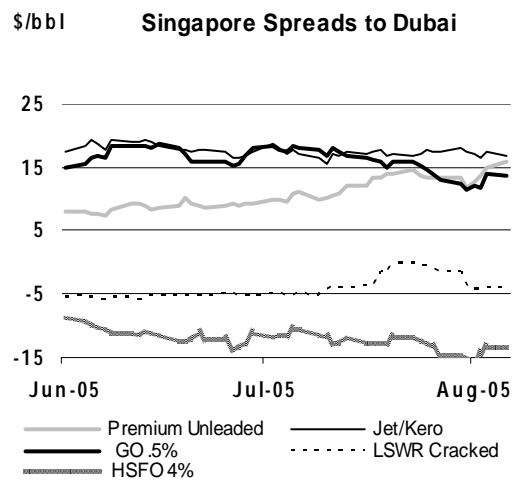
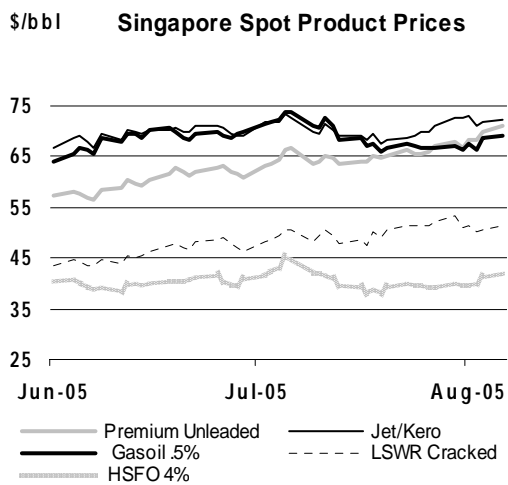
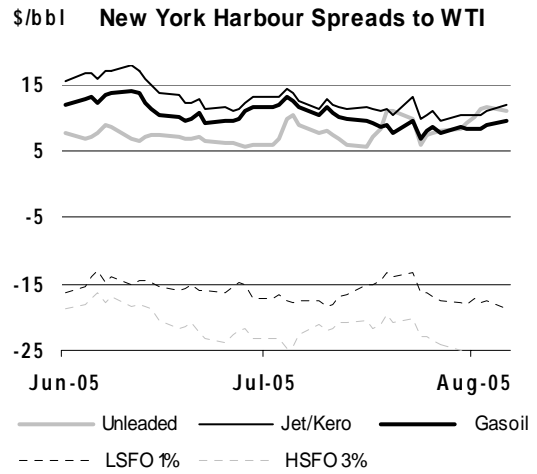
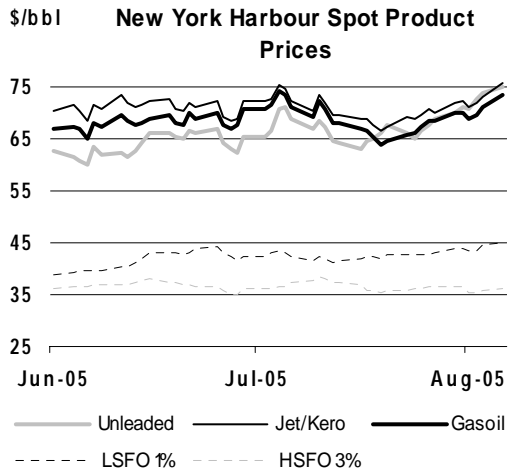
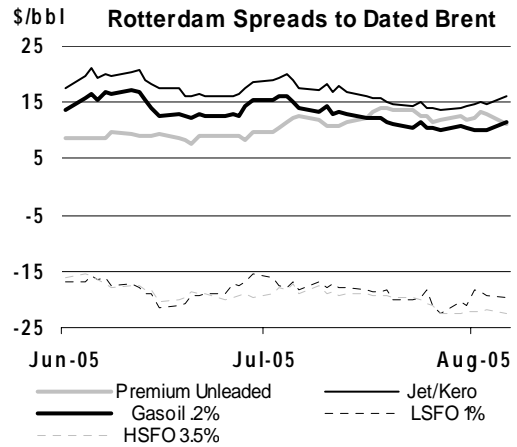
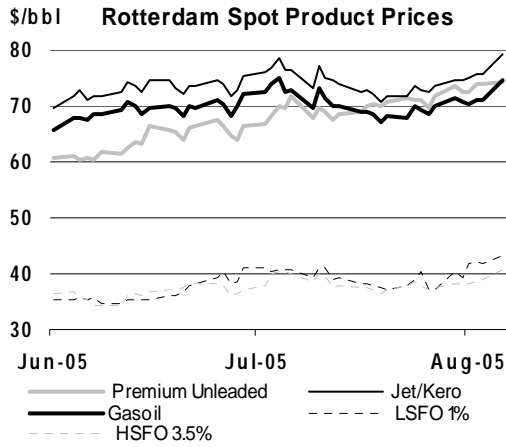
Asian gasoline prices also strengthened as reduced Chinese exports coincided with revived interest from Indonesia. State oil company Pertamina resumed product imports following reduced purchases in June as delayed subsidy payments reportedly resulted in cash-flow issues. China's August exports are expected to drop around 30% from July levels to just below 400,000 tonnes. This fall is partly a reflection of higher internal prices and the yuan revaluation, but also partly reflects trends in domestic demand.

Strong gasoline prices helped to support naphtha prices, but these were capped by strong exports from India and the Middle East. The low price of LPG continues to displace naphtha feeds into European petrochemical plants, particularly for paraffinic grades, and stocks remain ample.

Gasoil prices, having competed with gasoline as the highest priced market for most of this year, significantly underperformed other light products in July. The divergence was most noticeable in the US, accentuated by gasoline strength, but similar trends were also seen in Europe and Asia. The steep contango in IPE gas oil futures has provided a strong incentive to put material into storage, contributing to a steep rise in ARA gasoil stocks since April. High levels of storage are also reported to have built up in Baltic ports, despite pipeline problems into Ventspils. Strong demand from the eastern Mediterranean however helped to bolster southern European prices.



It has been a similar picture in the US, where most of the recent stock builds have been in diesel, rather than heating oil. However, this is less of an issue as it is much easier to blend-down diesel to a heating fuel standard, than to blend heating oil into diesel. But the emphasis on diesel stocks is also a reflection of the strength of diesel demand. Hot weather and high natural gas prices have also contributed to US distillate demand. With fuel oil powered generation units reportedly running flat-out, the high price of natural gas has prompted the use of distillate-fuelled peaking units to meet demand needs. Abundant diesel stocks will also be needed to meet the harvest season in the US Midwest, which runs from September through to October.



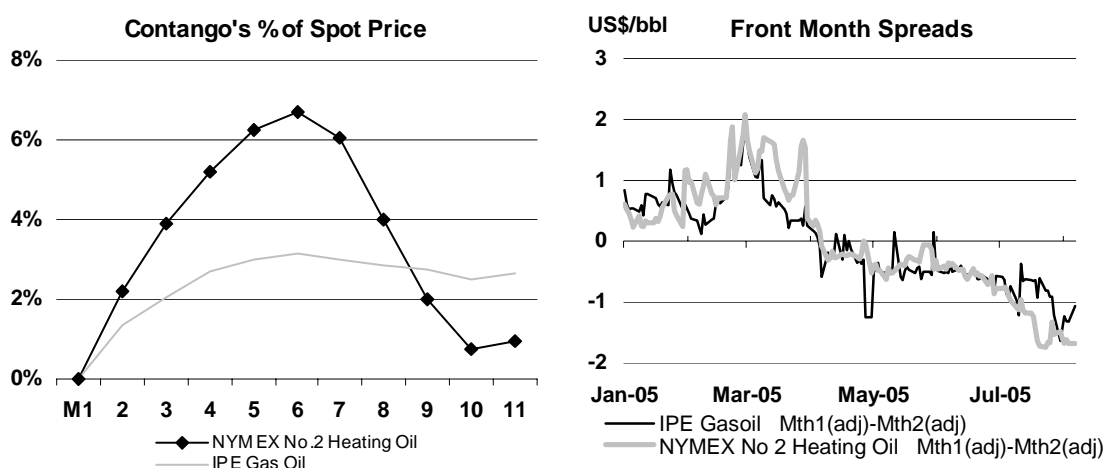
Asian gasoil demand has also been relatively weak. There are no sign of diesel imports from China, while the resolution of sulphur issues in India's domestic refining capacity has reduced the need to import lower sulphur material. Gasoil exports from Japan and China have contributed to the weakness. While Sinopec has flagged a cut in August diesel exports to 130,000 tonnes from an originally planned 220,000 tonnes, it cites a weak regional market, rather than strong domestic demand for the move. However, this runs contrary to local reports which suggest that limited domestic supply is leading to unofficial rationing in some regions. Asian jet prices have been more robust than gasoil, buttressed by the recent movement of material to the US West Coast.

Fuel oil frequently comes under pressure in mid-summer as refiners run flat-out to meet strong transportation fuel demand. July was no exception, with increased availability from the FSU added to European supplies, but were regionally constrained as higher Asian output limited arbitrage opportunities. Talk of scarce storage availability increases the need to clear surplus supplies, therefore putting downward pressure on prompt prices. China remains on the sidelines and reports that Chinese thermal coal output is running nearly 40% ahead of a year ago partly explains why fuel oil imports have subsided. US high sulphur fuel oil prices were also capped by increased Venezuelan and Caribbean exports.

While residual desulphurisation has been broadly economic for the past 8 months, the improved availability of low sulphur fuel oil to meet hot-weather induced demand from utilities in the Mediterranean appears better in comparison with the heatwave in 2003. This is largely due to cooler temperatures prevailing in Northwest Europe this year. Continued buying by Japanese utilities to offset summer demand and non-oil power generation losses helped to bolster low-sulphur waxy residue for most of July, narrowing differentials to crude, but purchases slowed towards the end of the month, weighing on prices.

### Product Futures

Despite reports of brimming gasoil stocks in Baltic ports and a sharp rise in independent ARA inventories, it is US heating oil that is now exhibiting signs of a larger comfort-zone. This is a considerable turn around from a few months ago, when US distillate stocks were reported at the lower end of the five-year range. While this Report noted that there was sufficient time and refiner flexibility for inventories to be replenished, considerable concern was expressed that supplies would be tight this winter. US distillate stocks now stand at the upper-end of their five-year range, and while they could still be drawn down by further refinery glitches and heavy autumn maintenance, refiners are nominally better positioned (although less so in terms of days of demand cover).



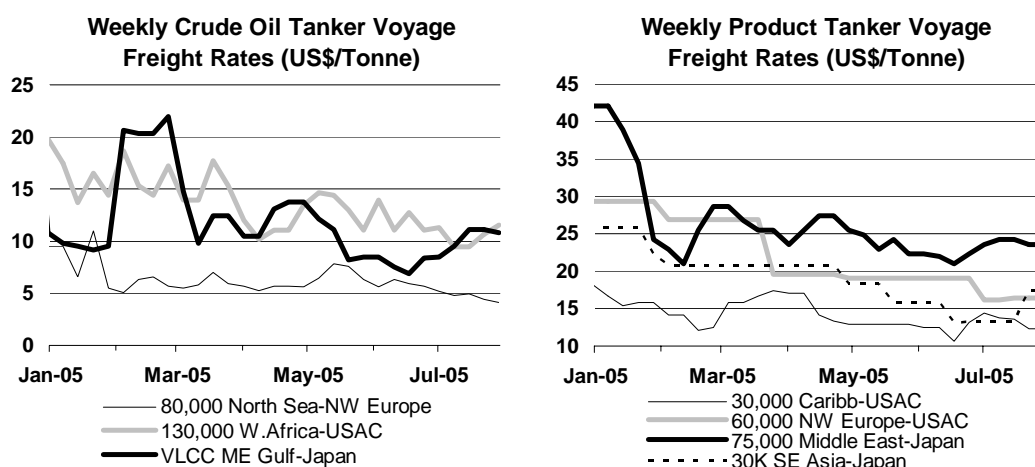
Relative price spreads on the IPE and NYMEX show a steep contango through to the middle of winter, reflecting this stock build and providing the incentive to put more material into storage. The chart below highlights how the contango in IPE gas oil futures has widened sharply in recent weeks, coinciding with further gains in ARA stocks and reports of high inventories at Baltic ports. However, on a percentage basis the contango curve on NYMEX heating oil is larger. While it could be argued that this represents a perceived greater need for oil to move into storage for winter needs, it has been clearly observable that the contango has widened as stocks have increased in recent weeks.

### End-User Product Prices in July

End-user petroleum product prices were up for all products and all countries in national currency terms in July. The relative strengthening of the Yen and the Pound versus the US dollar caused gasoline and diesel prices for Japan and the UK to weaken in US dollar terms. For the other countries covered by the survey, the US saw the largest gains in gasoline prices, which increased by 6.9% versus June levels and 19.8% above last year. This move was largely in line with 10% and 5% month-on-month increases in wholesale prices seen for super unleaded and unleaded gasoline in the New York Harbour in July. The gains in gasoline prices were largely due to a faster than normal draw-down of gasoline stocks in the US following a series of refinery outages and seasonal demand. European gasoline prices increased on average by around 4% in euro terms from June levels. Automotive diesel prices also saw large gains in July despite large distillate stock builds in the US and in northwest European storage. Average increases were 3.8%, with Spain and the US seeing the largest gains of closer to 5%. Fuel oil prices continue their upward moves supported by strong utility demand due to warmer-than-normal weather in the US and the Mediterranean.

### Freight

VLCC rates from the Arabian Gulf to Asia and the US trended higher in July in line with higher refinery runs in Asia, increased OPEC westbound sailings and continued high bunker fuel prices in the Middle East. Seasonal refinery maintenance in Asia largely came to an end in July, and according to preliminary reports, crude throughputs trended above seasonal norms for both Korea and Japan. Although the Chinese government raised their domestic fuel prices in July, the increase was not enough to encourage higher refinery runs and crude imports remained below last year's levels. Rates gained some support on another round of spot chartering by Saudi Arabia's Vela International Marine, which reportedly sent another two VLCCs to the United States early in the month. By the end of the July, however, rates turned around as increasing tonnage became available, especially in the Middle East Gulf. VLCC rates from West Africa to the US continued to derive support from refiners' sustained demand for distillate-rich crudes.

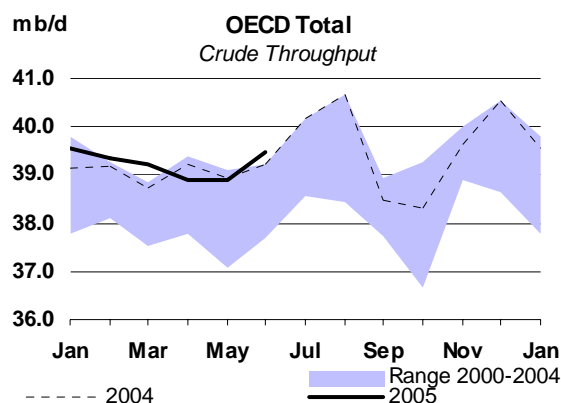
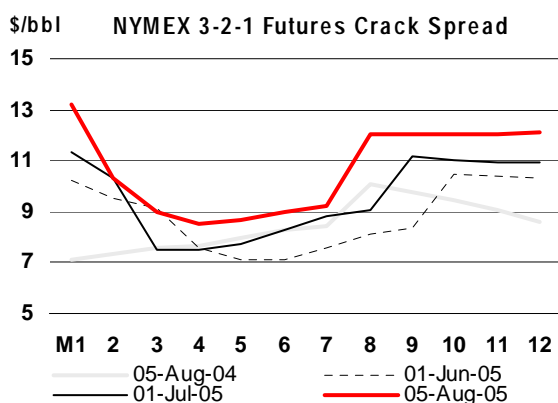


The Aframax market saw a mixed picture in July. Although the storms in the Gulf of Mexico failed to cause any serious damage to production facilities and delays in discharging were minimal, the market was nervous and rates were volatile. Rates decreased on reports that Mexico's state-owned oil company, PEMEX, had cancelled some cargoes following the hurricane shut-ins. The closure of the Louisiana Offshore Oil Port terminal meant delays in some tanker dischargings which tightened tonnage position and gave some support to rates. Aframax rates for tankers trading in Northern European markets remained steady for most of July, but slipped to their lowest level since September 2003 by end-month as seasonal maintenance on Norwegian oil fields reduced cargo supply.

# REFINERY ACTIVITY

## Summary

- **Full-cost refinery margins** were on balance weaker in July as light-product prices, notably for middle distillates, softened mid-month before staging a recovery. While crude prices followed a similar pattern in early July, this was comparatively shorter-lived before prices steadily increased. Not all refining configurations suffered the same fate. Those with proportionately higher yields of gasoline were buffered against the decline.
- **US Gulf Coast cracking margins** were down for light and medium crude as distillate prices weakened. US distillate inventories rebuilt above their five-year average, putting downward pressure on product cracks. Gasoline regained centre stage from distillates in July, following lower crude runs, seasonally higher demand, tightening inventories and unplanned refinery outages. As a result, high yielding gasoline configurations such as coking on Maya and Kern River saw their margins rise. The gains in coking margins were further supported by the widening of the price differential of heavy crude oils relative to the lighter benchmark WTI.
- **European margins** on all refining configurations, with the exception of Brent cracking, ended lower. Weakening fuel oil prices relative to crude weighed on hydroskimming margins, pushing them further into negative territory. Refinery fuel oil output increased with rising runs, while at the same time incoming supplies from the FSU backed up in Europe as arbitrage outlets to Asia remained closed. Profitability on Urals was also hit by the grade's strong price rally relative to Brent and weaker prices for gasoil and jet fuel.
- **Asian margins** were down following a marked decline in jet/kerosene and gasoil prices. Regional distillate supplies have improved since June. Stocks in Singapore returned within their five-year average, flipping paper prices into contango. Hydroskimming margins, as in Europe, suffered from excess fuel oil supplies. The recent volumes of arbitrage supplies from the West accumulated in Singapore storage as regional bunker demand fell back and Chinese import demand failed to show a significant increase.
- **OECD refinery throughputs** rose in June by almost 600 kb/d to 39.5 mb/d, or the top end of their five-year range. Most of the increase was driven by a post-maintenance ramp-up in US crude runs. Throughputs in Europe posted a modest uptick but remained low despite indications of less offline capacity than in May. Offsetting trends in the OECD Pacific left throughputs about even from May.
- **The 3-2-1 NYMEX crack spread** in the front-month continued to shift upwards in July and early August. This proxy measure of the refining margin essentially gained on the strength of gasoline prices. These were driven higher following lower refinery runs, seasonal strength in gasoline demand and a string of unplanned outages at refineries affecting gasoline production.



## Refining Margins

Refinery margins were on balance down in July. Prices of distillate products, which have driven margins higher in recent months, softened mid-month, regaining losses only unevenly by the end of July across refining centres. The initial fall in prices for gasoil and jet/kerosene was due, in part, to rising stocks and increased production. At the same time, price strength in futures markets swung back to gasoline, the move supported by lower supplies and seasonally stronger demand. The strength in gasoline prices helped naphtha prices to recover. This allowed refinery configurations with a high gasoline weighting to mitigate downward pressures associated with weaker distillate prices, or in the case of coking configurations in the US, to see an increase in their returns.

In the Atlantic Basin, while refinery margins trended lower on an absolute basis, they remained generally positive for all refinery configurations. Oil product demand in the US continues to absorb domestic supplies while drawing on traditional swing gasoline supplies from Europe. Margins similarly weakened in Asia and with the exception of cracking for Dubai and Daqing, held for the most part in negative territory. Hydroskimming margins globally were weaker following a worsening crack spread for fuel oil. Fuel oil demand has been generally weak, albeit perhaps less for certain grades used in power generation or as alternative refinery feedstock. In addition, trade in surplus product generated from higher crude runs often met with limited arbitrage possibilities.

### Selected Refining Margins in Major Refining Centres

	Monthly Average			Change Jul-Jun 05	Week Ending:				
	May 05	Jun 05	Jul 05		01 Jul	08 Jul	15 Jul	22 Jul	29 Jul
<b>NW Europe</b>									
Brent (Cracking)	4.35	4.65	4.74	0.09	4.86	5.26	4.87	4.71	2.82
Brent (Hydroskimming)	-0.12	-0.32	-0.89	-0.57	-0.19	-0.74	-0.61	-1.01	-2.87
<b>Mediterranean</b>									
Urals (Cracking)	5.75	5.69	4.35	-1.34	5.22	5.31	3.41	3.36	3.23
Urals (Hydroskimming)	-0.36	-1.64	-3.26	-1.63	-2.13	-2.57	-3.66	-4.62	-4.61
<b>US Gulf Coast</b>									
Brent (Cracking)	1.62	1.53	0.23	-1.30	0.51	0.95	-0.43	-0.08	-1.80
LLS (Cracking)	4.07	3.68	3.03	-0.65	2.08	4.53	2.43	3.38	1.25
Maya (Coking)	10.25	11.04	11.58	0.54	10.60	12.32	10.42	12.26	11.74
<b>US West Coast</b>									
ANS (Cracking)	7.34	3.81	4.22	0.40	3.98	4.44	3.04	5.59	4.26
Oman (Cracking)	5.09	3.23	4.33	1.10	5.75	2.80	4.12	5.53	5.38
Kern (Coking)	19.11	17.26	18.45	1.19	21.17	18.00	16.71	19.79	19.88
<b>Singapore</b>									
Tapis (Hydroskimming)	-1.66	-1.30	-2.32	-1.02	-2.04	-2.59	-2.13	-1.43	-3.71
Dubai (Hydrocracking)	3.51	2.73	2.67	-0.06	3.11	2.95	2.96	3.08	1.51
Tapis (Hydrocracking)	0.55	0.95	-0.26	-1.21	0.33	-0.31	0.12	0.30	-2.05
<b>China*</b>									
Cabinda (Hydroskimming)	-2.04	-2.45	-0.52	1.94	-3.24	-0.80	-0.94	0.40	-0.82
Daqing (Hydrocracking)	-1.86	-0.59	1.64	2.23	2.04	1.75	0.32	2.93	2.07

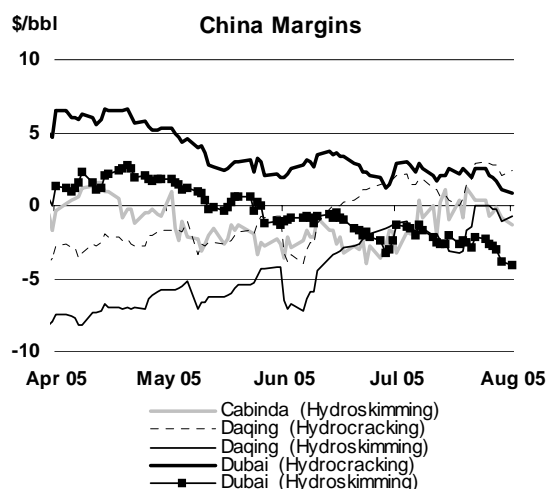
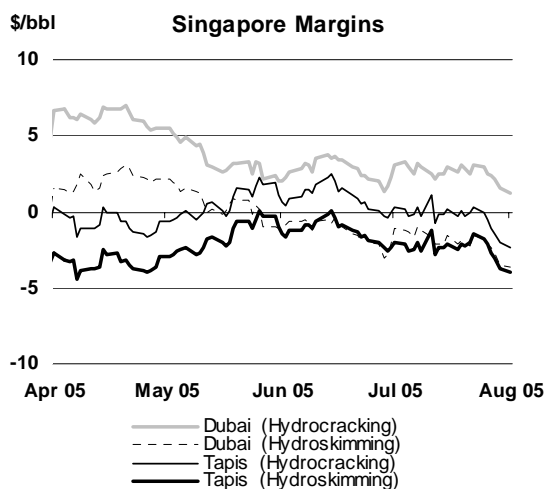
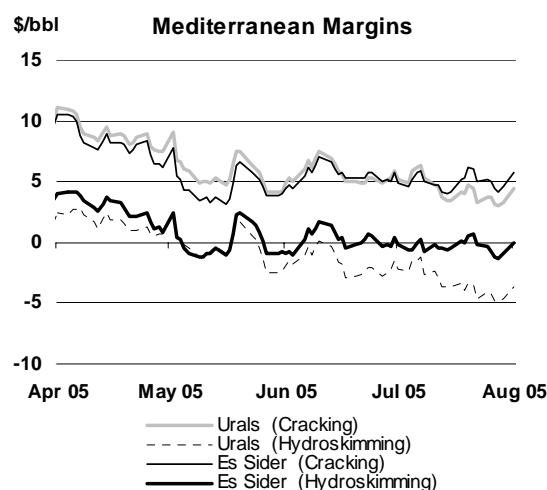
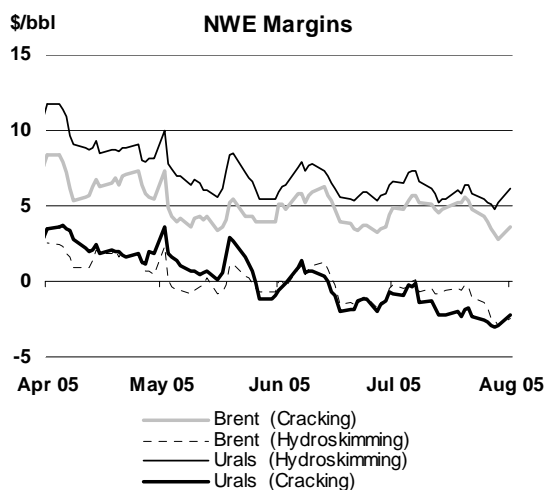
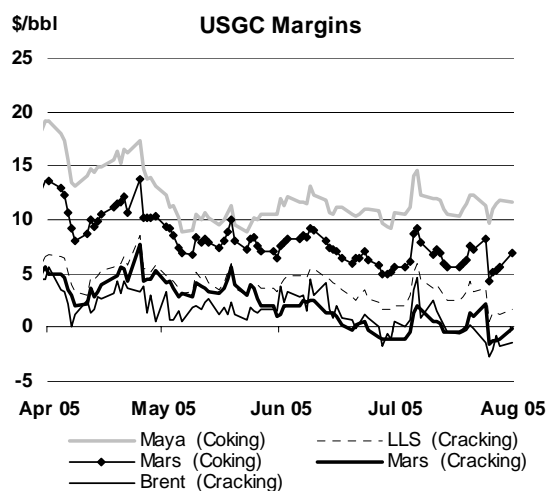
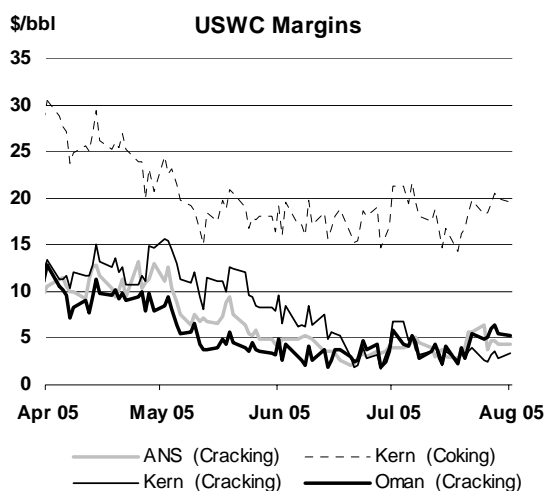
For the purposes of this Report, refining margins are calculated for various complexity configurations, each optimised for processing the specific crude in a specific refining centre on a 'full-cost' basis. Consequently, reported margins should be taken as an indication, or proxy, of changes in profitability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

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

Sources: IEA, Purvin & Gertz Inc.

In Europe, cracking margins for light sweet Brent crude held about even at \$4.74/bbl, inching up an additional 10 cents from June despite a rise in the price for the North Sea benchmark. Margins were supported by gains in gasoline and naphtha prices. Price gains for these products followed in line with those in the US. They were further buoyed on a regional level by the outage of the Pernis refinery in Rotterdam. The outage led to refinery buying on the barge market to cover for prompt requirements, further boosting prices. Alongside gasoline shipments to the US and Nigeria, a tightening of supplies was reflected in swap prices for gasoline. These flipped into backwardation in July and cash prices for gasoline rose above those of 50 ppm diesel and 0.2% gasoil in Northwest Europe.

### Regional Full-Cost Refining Margins



Tighter supplies of gasoline were reflected in declining European industry stocks in June and falling inventories in ARA independent storage in July. Naphtha prices strengthened on the rally in gasoline, particularly for grades suited for use in reformer units (which convert naphtha to gasoline).

Cracking margins on Urals fell both in the Northwest and the Mediterranean to respectively \$5.99/bbl and \$4.35/bbl. The weakening in Urals margins was supported in part by the tightening of the crude's price relative to Dated Brent in the first half of July. Urals in Northwest Europe moved from a discount of \$3.76/bbl at the end of June to \$2.49/bbl by 19 July. In the Mediterranean, the spread narrowed from \$3.43/bbl to \$2.19/bbl.

As European refiners completed maintenance, they actively bid up Urals with an aim to capture the crude's high distillate content to build inventories of heating fuels ahead of peak winter demand. At the same time, Urals supplies into Europe have been tightening. Export growth is weaker this year, in line with slower growth in crude oil production. Limited additions to export capacity (as compared to 2004) at the main Baltic loading terminal of Primorsk, have also played a part. Volumes from the port have been stable in the first six months of 2005, at about 1.1 to 1.2 mb/d. In the Mediterranean, Urals also received some support in early July from a reduced tender for Iraqi Kirkuk loading at the Turkish port of Ceyhan.

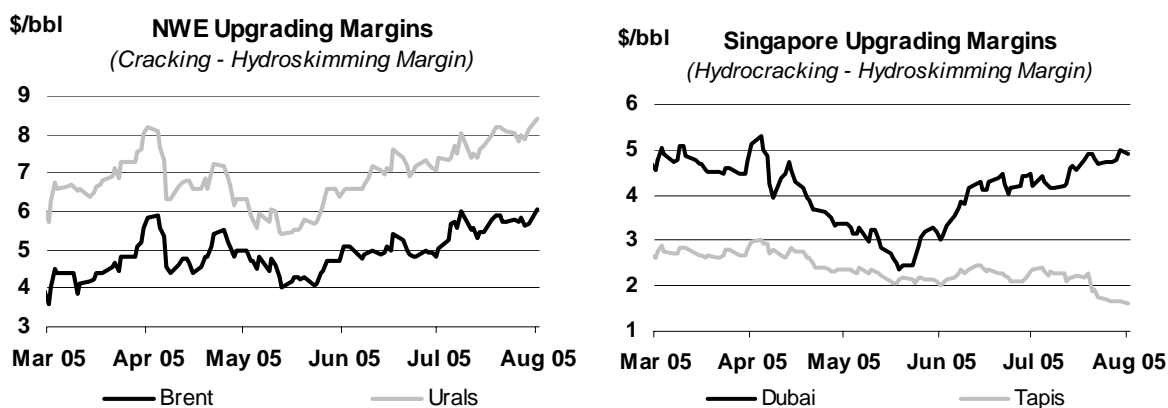
However, margins on cracking Urals are likely to improve in August. Urals prices began to fall back in the second half of July, dragged lower in the Mediterranean by a drop in the differential of comparable Iranian Light grade loaded at Sidi Kerir. A marked re-tightening of the spread against Brent looks unlikely. Strength in Urals attracted medium sour supplies from outside of the region, with cargoes of Oman reportedly being delivered into Northwest Europe. In addition, the absence of Chinese interest for August loading Urals from the Baltics has seen these barrels re-offered into the Mediterranean.

Rising duties on Russian exports of crude need to be mentioned. Higher duties (which have nearly tripled since the start of 2004) have prompted Russian operators to keep more crude oil in their refining systems and export product instead. Higher duties have had an impact on rail shipments, which in 2004 were a significant component of Russian supply growth. Shipments by rail are more costly than those via pipeline, adding a further incentive to keep crude at home. The increased demand for Russian Urals also came with lower availabilities of North Sea grades as seasonal field maintenance affecting both Norway and the UK reduces production for July and August.

Distillate prices in Europe, although high on an historical basis, weakened for most of July following declines in IPE gasoil futures (against which their cash prices are established) in early and mid-July. While outright distillate prices recovered some of their losses by end-month, demand has been weak, particularly for heating oil as end-users limited the refilling of their tanks. Consumer stocks of gasoil in Germany, Europe's largest heating oil market, were reported only 47% full at the beginning of July, markedly off their historical range. Product has instead been moving into storage as a result of prompt prices falling below forward ones. Both gasoil and jet fuel stocks in independent storage hit record highs in the ARA area in July and early August.

While European production of distillate is rising, the region has also seen large volumes of imports. Product exports from the FSU in the first half of the year are running about 14% above the volume observed for the same period last year. Gasoline, a large component of growth so far this year, has headed to the US but gasoil and notably fuel oil has landed in Europe. With regards to jet fuel, imports from the Middle East have risen, as refiners divert supplies away from the comparatively weaker Asian market.

The rise in Russian fuel oil exports has depressed prices in Europe, hitting simple or hydroskimming margins hard in July and pushing them further into negative territory. While high-sulphur straight-run material, used as an alternative feedstock, has been shipped to the US, cracked material has been stranded in Europe. Arbitrage opportunities to direct excess product to Asia closed during the month, leaving supplies accumulating in ARA independent storage. Low-sulphur fuel oil prices have also weakened. Unlike in previous months, no deliveries were reported to the US to meet power utility demand and recent milder temperatures in the Northeast and Gulf Coast do not suggest an immediate resumption of shipments to the US. In Europe, higher demand from utilities due to drought conditions this summer did not appear to lead to shortages witnessed in 2003. As a result of the surplus in fuel oil supplies, the upgrading margins (the relative profitability of running a cracking configuration over a hydroskimming) widened in Europe.



A similar dynamic was apparent for hydroskimming in Singapore and China. The upgrading margins widened as fuel oil crack spreads worsened. The absence of a significant ramp up in Chinese import demand was a driving factor that contributed to weaker fuel oil prices in Singapore. Chinese imports of fuel oil were higher in June, but from a very weak month for May, and down against volumes in 2004. Initial trader reports for July indicate that imports into the main fuel oil import terminal at Huangpu fell against June and were not expected to post a significant rise in August. Combined with slower bunker demand, this led excess supplies in the region and incoming arbitrage supplies from Europe to back-up in Singapore tanks. With Chinese buying interest expected to remain muted, simple margins will continue to be under pressure in August.

However, the upgrading margins did not widen in the same proportions as in Europe. Demand for low sulphur fuel oil used in power generation saw some support with demand from Japan for LSWR. The premium for LSWR over Singapore's 180cst benchmark rose to \$12/bbl by the end of July. Consequently, hydroskimming margins for heavier sweet Cabinda bucked trends described above. Though negative, the margin on Cabinda improved strongly in China. Half of Cabinda's product yield is accounted by LSWR, which saw its discount relative to Cabinda narrow from \$6 to \$2/bbl. Cabinda also saw its price fall back in July after posting strong gains in June. The grade had been in strong demand when trade for July loading barrels began in late May early June, witnessing its price rise sharply relative to Dated Brent along with the similar quality Girassol crude.

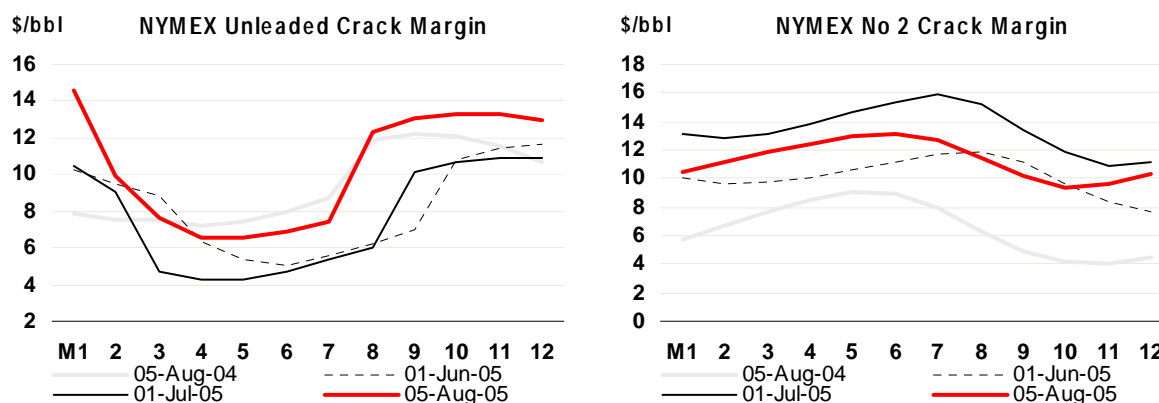
Cracking margins on sour grades remained positive in Asia with those for Dubai fetching \$2.67/bbl in Singapore and \$2.26/bbl in China. The margins were only slightly down from June despite weaker distillate prices. Supplies of kerosene and gasoil improved in Asia on higher exports from regional refiners which had increased yields in line with strong prices in June. Despite steady kerosene demand into India, the absence of Chinese buying weighed down on prices, leading jet/kerosene to temporarily fall below gasoil in the early part of July. Gasoil prices were similarly impacted by the lack of Chinese demand alongside weaker interest from Indonesia. Korean refiners (Asia's main exporters) were forced as a result to offer their cargoes at increasing discounts to Singapore prices. While jet/kerosene prices may recover with Middle Eastern refiners diverting cargoes to Europe, gasoil prices are likely to hold down the distillate complex in August. A potential cap to further gains in gasoil prices is likely to come from increased export competition between China and Korea. Although August demand from Indonesia may lend support to distillate prices, the weakness in apparent Chinese demand so far this year supports the view that, along with reduced imports from India, Asian cracking margins are unlikely to see a major upturn in the near term.

Mitigating the impact of falling Asian product prices in July on cracking margins, however, was a continuous widening in the differentials of medium sour to light sweet grades in the region. This was in contrast to what was observed in Europe with Urals. Dubai traded at \$5.81/bbl under light sweet Tapis at end June, its discount increasing to \$8.03/bbl by the end of July. Forward prices for Dubai moved into contango as prompt prices were depressed by the weakness in comparable Oman crude.

In contrast to medium sour, the return for cracking light sweet Tapis declined markedly in Singapore. The margin saw a \$1.21/bbl decline, turning negative at -\$0.26/bbl in July versus \$0.95/bbl in June. The underlying strength of Tapis crude was the main driver in the decline. Tapis strengthened in Asia as the flow of light sweet crude from West Africa into the region fell. Light sweet Nigerian grades such as Bonny Light and Forcados saw competing demand from US and European refiners. In addition, heavy term and spot buying from India into September was also supportive of higher premiums of Nigerian grades against dated Brent.

In the US, the weakening of distillate prices had differing impacts between the West and Gulf Coasts for cracking margins. The divergence stemmed mainly from the segmented nature of the US market. The West Coast is in effect autonomous from developments elsewhere in the US due to its narrow product specifications. When unplanned refinery outages occur, the impact on prices can vary disproportionately compared to other regions in the country. As such, while cracking margins fell in the Gulf Coast with weaker distillate prices, those on the West Coast for Oman and ANS ended higher. Only Kern cracking margins fell due to the weakness in high sulphur fuel oil prices. The outage of a crude distillation unit at Chevron's 260 kb/d El Segundo refinery in California, led to a strong rally in distillate prices in the second half of July. Prices more than recouped earlier losses, with the price for Carb diesel in Los Angeles trading above that of gasoline.

On the Gulf Coast, cracking margins on light sweet crude, while firmly positive on the strength of gasoline prices (particularly for high-octane grades) and recovering naphtha prices, suffered adverse movements against WTI. Dated Brent firmed against WTI over July, sending WTI's usual premium temporarily into a discount mid-month. The weaker average between the two benchmarks prompted US refiners to seek out alternative light sweet grades in the domestic market, widening LLS's premium over WTI. Cracking margins for medium, sour Mars remained barely positive in July due to its relatively high yield of high-sulphur fuel oil.



Gasoline maximising coking configurations continued to post strong margins on the Gulf and West Coast. Crack spreads on futures belatedly overtook those for heating oil on the NYMEX as gasoline prices rallied on unplanned outages, lower stocks and seasonally firming demand. Also, US output of finished gasoline relative to distillate was down in July. With gasoline prices up, margins on Kern River gained \$1.19/bbl to reach \$18.45/bbl and those on Mexican Maya were up by \$0.54/bbl to \$11.58/bbl. The strengthening of margins was also supported by discounts of heavy crude oil to WTI. These widened in the second half of the month. Downward pressure on the differential for Mexican Maya, which takes into account in its price formula changes in 3% fuel oil prices, followed the deterioration of fuel oil's crack against WTI in the Gulf Coast.

## Refinery Throughput

OECD refinery throughputs rose to 39.5 mb/d in June, increasing by nearly 600 kb/d from May and running about 300 kb/d above a year ago. Most of the increase followed a rise in US crude runs. After completion of scheduled maintenance in May, US refiners steadily increased runs to meet both summer gasoline demand and rebuild inventories of distillate products ahead of winter. US refiners achieved near-capacity utilisation rates by early July, with runs at 16.5 mb/d, or 98% of the 17.1 mb/d of installed capacity.

European throughputs posted an 100 kb/d increase according to preliminary data for June, with crude runs averaging 13.5 mb/d for the month. According to turnaround surveys, offline capacity in Europe in June was around 400 kb/d or about a third of the peak level in May. As such, the preliminary data may understate actual runs. Most countries saw their throughputs holding flat or slightly down. The exception was France where runs picked up 60 kb/d. Gains in other countries were modest and spread across the region. The Pacific area saw throughputs hold flat in June as Korean refiners reduced runs while Japanese refiners emerged from peak turnarounds in May. Overall runs in the OECD Pacific, at 6.6 mb/d, were above a year ago by about 500 kb/d. The higher level was commensurate with stronger product demand on a yearly basis and the desire by Korean and Japanese refiners to boost product exports to capture recent high prices in the Asian market, notably on distillates.

### Refinery Crude Throughput and Utilisation in OECD Countries

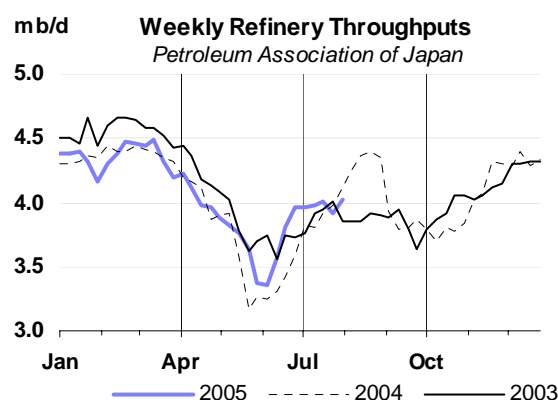
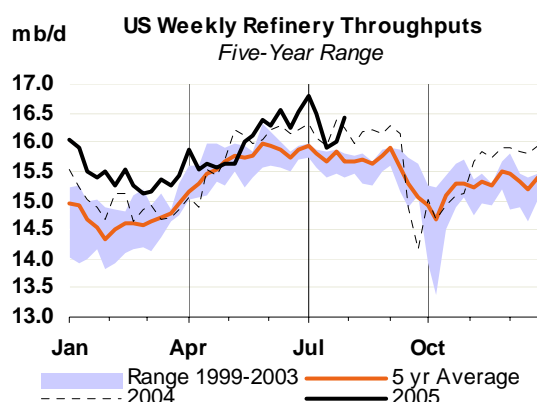
	million barrels per day						Change from Jun 04		Utilisation rate <sup>2</sup>	
	Jan 04	Feb 05	Mar 05	Apr 05	May 05	Jun 05	mb/d	%	Jun 05	Jun 04
<b>OECD North America</b>										
US <sup>3</sup>	15.20	15.11	15.14	15.49	15.89	16.24	0.00	0.0	95.3	96.2
Canada	1.90	1.89	1.86	1.73	1.75	1.79	0.08	4.8	88.6	85.8
Mexico	1.28	1.27	1.32	1.33	1.27	1.27	-0.01	-1.2	75.4	72.0
Total	18.38	18.27	18.32	18.54	18.91	19.30	0.07	0.3	93.0	93.6
<b>OECD Europe</b>										
France	1.81	1.72	1.84	1.79	1.56	1.62	-0.02	-1.2	83.1	84.1
Germany	2.36	2.33	2.35	2.22	2.33	2.29	0.04	1.8	93.6	91.9
Italy	1.83	1.74	1.71	1.89	1.95	1.89	0.02	1.3	81.4	80.6
Netherlands	1.09	1.05	0.98	1.12	1.13	1.11	-0.02	-1.9	90.3	92.5
Spain	1.17	1.09	1.09	1.19	1.18	1.19	-0.03	-2.7	93.6	96.2
UK	1.65	1.60	1.64	1.58	1.62	1.59	0.00	-0.2	87.3	87.8
Other OECD Europe	3.87	4.07	3.89	3.48	3.65	3.85	-0.25	-6.1	82.5	87.7
Total	13.79	13.60	13.50	13.27	13.43	13.55	-0.26	-1.9	86.2	87.9
<b>OECD Pacific</b>										
Japan	4.20	4.36	4.24	3.96	3.58	3.78	0.41	12.3	80.3	71.5
Korea	2.44	2.43	2.46	2.24	2.33	2.12	0.02	1.1	82.3	82.4
Other OECD Pacific	0.75	0.67	0.72	0.74	0.66	0.74	0.04	5.6	86.3	81.7
Total	7.40	7.46	7.42	6.94	6.57	6.64	0.48	7.7	81.5	76.0
<b>OECD Total</b>	<b>39.56</b>	<b>39.33</b>	<b>39.24</b>	<b>38.89</b>	<b>38.91</b>	<b>39.49</b>	<b>0.28</b>	<b>0.7</b>	<b>88.5</b>	<b>88.4</b>

1 Estimate

2 Based on crude throughput and current operable refining capacity

3 US50

Weekly data show Japanese refiners raising throughputs in July to 4 mb/d, with runs averaging about 200 kb/d higher than in June. Trade reports suggest that Korean crude runs were nudged higher by 100 kb/d to 2.24 mb/d in July, keeping capacity utilisation rates above 82% in contrast with the previous year where runs had fallen. Reported market expectations for August suggested that Korean refiners would scale back runs, mirroring moves in July by Chinese refiners in the coastal regions. However, recent soundings suggest that runs are likely to be maintained at around 2.25 mb/d. The main driver is a desire to maintain or increase exports. Though recently Korean refiners have seen discounts for their cargoes, particularly 0.5% gasoil, widen to Singapore quotes, light product prices in Singapore continue to remain strong through July and early August.



Weekly throughputs figures for the US show refiners scaling back runs with refinery utilisation rates falling back on average under 95%. The decline in runs followed from precautionary closures as Hurricanes Cindy and Denis threatened production facilities on the Gulf, leaving utilisation rates at under 93% mid-month. However, despite unplanned refinery outages the Gulf Coast, California and the Mid-continent, US crude runs swung back by end-month, reaching close to 96%.

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

	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
<b>OECD DEMAND</b>																	
North America	24.1	24.5	25.2	25.1	25.4	25.7	25.4	25.5	25.2	25.8	26.1	25.7	25.9	25.5	26.1	26.4	26.0
Europe	15.3	15.4	15.6	15.2	15.6	16.0	15.6	15.5	15.3	15.6	16.0	15.6	15.6	15.3	15.7	16.0	15.6
Pacific	8.6	8.7	9.3	7.9	8.2	8.8	8.5	9.5	8.1	8.2	9.0	8.7	9.5	8.1	8.3	9.1	8.7
Total OECD	48.0	48.6	50.1	48.2	49.1	50.4	49.5	50.6	48.6	49.6	51.1	49.9	51.0	48.9	50.1	51.5	50.4
<b>NON-OECD DEMAND</b>																	
FSU	3.5	3.6	3.5	3.7	3.8	4.0	3.7	3.7	3.6	3.7	4.1	3.8	3.8	3.6	3.8	4.1	3.8
Europe	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7
China	5.0	5.6	6.3	6.5	6.3	6.6	6.4	6.5	6.4	6.8	7.2	6.7	7.0	7.1	7.4	7.6	7.3
Other Asia	8.0	8.0	8.4	8.7	8.3	8.7	8.5	8.7	8.8	8.6	9.0	8.8	9.0	9.2	8.8	9.3	9.1
Latin America	4.8	4.7	4.7	4.9	5.0	4.9	4.9	4.8	5.0	5.1	5.0	5.0	4.9	5.1	5.2	5.1	5.1
Middle East	5.2	5.3	5.5	5.5	5.8	5.6	5.6	5.8	5.7	6.1	5.9	5.9	6.1	6.0	6.4	6.2	6.2
Africa	2.7	2.7	2.8	2.8	2.7	2.8	2.8	2.9	2.9	2.8	2.9	2.9	3.0	3.0	2.9	3.0	3.0
Total Non-OECD	29.7	30.6	32.0	32.8	32.6	33.3	32.7	33.3	33.2	33.7	34.8	33.8	34.6	34.7	35.1	36.1	35.1
<b>Total Demand<sup>1</sup></b>	<b>77.7</b>	<b>79.2</b>	<b>82.1</b>	<b>80.9</b>	<b>81.7</b>	<b>83.8</b>	<b>82.1</b>	<b>83.9</b>	<b>81.8</b>	<b>83.3</b>	<b>85.9</b>	<b>83.7</b>	<b>85.6</b>	<b>83.7</b>	<b>85.2</b>	<b>87.6</b>	<b>85.5</b>
<b>OECD SUPPLY</b>																	
North America	14.5	14.6	14.8	14.7	14.5	14.4	14.6	14.4	14.6	14.5	14.9	14.6	14.9	14.8	14.7	14.8	14.8
Europe	6.6	6.3	6.4	6.2	5.7	6.0	6.1	5.9	5.8	5.5	5.8	5.7	5.8	5.5	5.3	5.5	5.5
Pacific	0.8	0.7	0.6	0.6	0.6	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total OECD	21.9	21.6	21.8	21.5	20.8	21.0	21.3	20.9	21.0	20.6	21.3	20.9	21.3	20.8	20.6	20.9	20.9
<b>NON-OECD SUPPLY</b>																	
FSU	9.4	10.3	10.9	11.1	11.4	11.5	11.2	11.4	11.5	11.7	11.8	11.6	11.9	11.9	12.2	12.4	12.1
Europe	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
China	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Other Asia	2.5	2.6	2.7	2.7	2.8	2.8	2.8	2.7	2.6	2.7	2.8	2.7	2.9	2.9	2.9	2.9	2.9
Latin America	3.9	4.0	4.0	4.1	4.1	4.1	4.1	4.1	4.4	4.4	4.4	4.3	4.4	4.5	4.5	4.6	4.5
Middle East	2.1	2.0	2.0	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.7
Africa	3.0	3.0	3.3	3.3	3.5	3.5	3.4	3.6	3.6	3.8	4.0	3.7	4.1	4.2	4.3	4.4	4.3
Total Non-OECD	24.5	25.6	26.5	26.8	27.3	27.5	27.0	27.5	27.7	28.2	28.6	28.0	28.8	29.0	29.3	29.7	29.2
Processing Gains <sup>2</sup>	1.8	1.8	1.9	1.8	1.8	1.9	1.8	1.9	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Total Non-OPEC	48.1	49.0	50.1	50.1	49.9	50.3	50.1	50.3	50.5	50.6	51.7	50.8	52.0	51.8	51.8	52.5	52.0
<b>OPEC</b>																	
Crude <sup>3</sup>	25.1	26.8	27.9	28.1	29.1	29.5	28.6	28.8	29.3								
NGLs	3.7	3.9	4.3	4.3	4.3	4.4	4.3	4.7	4.7	4.8	4.9	4.8	5.1	5.1	5.2	5.3	5.2
Total OPEC	28.8	30.7	32.2	32.3	33.4	33.9	33.0	33.5	34.0								
<b>Total Supply<sup>4</sup></b>	<b>76.9</b>	<b>79.7</b>	<b>82.3</b>	<b>82.5</b>	<b>83.3</b>	<b>84.2</b>	<b>83.1</b>	<b>83.7</b>	<b>84.5</b>								
<b>STOCK CHANGES AND MISCELLANEOUS</b>																	
<b>Reported OECD</b>																	
Industry	-0.4	0.1	-0.5	0.8	0.4	-0.3	0.1	-0.1	1.3								
Government	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1								
Total	-0.3	0.3	-0.4	0.9	0.5	-0.2	0.2	0.1	1.4								
Floating Storage/Oil in Transit	0.0	0.2	-0.2	-0.2	0.3	0.3	0.0	-0.4	0.0								
Miscellaneous to balance <sup>5</sup>	-0.4	0.0	0.9	0.8	0.9	0.3	0.7	0.3	1.3								
<b>Total Stock Ch. &amp; Misc</b>	<b>-0.7</b>	<b>0.5</b>	<b>0.2</b>	<b>1.6</b>	<b>1.6</b>	<b>0.4</b>	<b>1.0</b>	<b>-0.1</b>	<b>2.7</b>								
<b>Memo items:</b>																	
Call on OPEC crude + Stock ch. <sup>6</sup>	25.9	26.3	27.7	26.5	27.5	29.1	27.7	28.9	26.6	27.9	29.2	28.2	28.5	26.8	28.2	29.8	28.3
Total Demand ex. FSU	74.2	75.6	78.6	77.2	77.9	79.8	78.4	80.1	78.2	79.6	81.8	80.0	81.8	80.0	81.4	83.5	81.7
Total demand exc. FSU (% ch) <sup>7</sup>	1.1	1.9	3.4	4.9	3.3	3.1	3.6	2.0	1.3	2.2	2.6	2.0	2.1	2.4	2.3	2.0	2.2

<sup>1</sup> 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

<sup>2</sup> 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

<sup>3</sup> Upgraded Venezuelan Orinoco extra-heavy production is classified as non-conventional crude

<sup>4</sup> Comprises crude oil, condensates, NGLs, oil from non-conventional sources and other sources of supply

<sup>5</sup> Includes changes in non-reported stocks in OECD and non-OECD areas

<sup>6</sup> Equals the arithmetic difference between total demand minus total non-OPEC supply minus OPEC NGLs

<sup>7</sup> 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
<b>OECD DEMAND</b>																	
North America	-	-	-	-	-	-	-	0.1	-	-	0.1	-	0.1	0.1	-	0.1	0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-
<b>Total OECD</b>	-	-	-	-	-	-	-	0.1	0.1	-	0.1	0.1	0.1	0.1	-	0.2	0.1
<b>NON-OECD DEMAND</b>																	
FSU	-	-	-	-	-	-	-	-	-	-0.1	-	-	-0.1	-	-	0.1	-
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	0.1	-	-	-0.1	-	0.1	-	-	-0.1	-	0.1	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Middle East	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Non-OECD</b>	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.2	-0.2	-0.3	-0.4	-0.1	-0.2	-0.3	-0.3	-0.2	-0.1	-0.2
<b>Total Demand</b>	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2	-0.1	-0.1	-0.4	-	-0.2	-0.1	-0.1	-0.2	0.1	-0.1
<b>OECD SUPPLY</b>																	
North America	-	-	-	-	-	-	-	-	-	-0.2	-	-0.1	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-0.1	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total OECD</b>	-	-	-	-	-	-	-	-	-0.1	-0.4	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
<b>NON-OECD SUPPLY</b>																	
FSU	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-0.1	-0.1	-0.1	-0.2	-0.1
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asia	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-	-	-	-	-	-
Latin America	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-	-
Middle East	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Non-OECD</b>	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1	-0.2
Processing Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Non-OPEC</b>	-	-	-	-	-	-	-	-	-0.1	-0.4	-0.3	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4
<b>OPEC</b>																	
Crude	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NGLs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total OPEC</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Supply</b>	-	-	-	-	-	-	-	-	-0.1	-	-	-	-	-	-	-	-
<b>STOCK CHANGES AND MISCELLANEOUS</b>																	
<b>REPORTED OECD</b>																	
Industry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Floating Storage/Oil in Transit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous to balance	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.1	-	-	-	-	-	-	-	-	-
<b>Total Stock Ch. &amp; Misc</b>	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.1	-	-	-	-	-	-	-	-	-
<b>Memo items:</b>																	
Call on OPEC crude + Stock ch.	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-	-	0.3	-	0.2	0.2	0.2	0.4	0.2
<b>Total Demand ex. FSU</b>	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2	-0.1	-0.1	-0.3	-	-0.1	-0.1	-0.1	-0.2	-	-0.1

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

**Table 2**  
**Summary of Global Oil Demand**

	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006
<b>Demand (mb/d)</b>																
North America	24.53	25.23	25.09	25.41	25.69	25.36	25.53	25.19	25.81	26.08	25.65	25.92	25.55	26.15	26.41	26.01
Europe	15.43	15.60	15.16	15.56	15.98	15.58	15.54	15.29	15.63	16.01	15.62	15.55	15.27	15.67	16.01	15.63
Pacific	8.69	9.28	7.90	8.16	8.77	8.53	9.49	8.08	8.18	8.96	8.67	9.50	8.10	8.26	9.08	8.73
Total OECD	48.65	50.12	48.16	49.13	50.44	49.46	50.56	48.56	49.62	51.05	49.95	50.98	48.92	50.08	51.49	50.37
FSU	3.59	3.51	3.71	3.78	3.97	3.74	3.73	3.58	3.71	4.06	3.77	3.79	3.61	3.76	4.11	3.82
Europe	0.69	0.76	0.70	0.66	0.71	0.71	0.78	0.72	0.67	0.73	0.72	0.79	0.74	0.69	0.75	0.74
China	5.58	6.28	6.53	6.32	6.60	6.43	6.55	6.44	6.81	7.20	6.75	6.99	7.05	7.35	7.64	7.26
Other Asia	8.05	8.42	8.66	8.32	8.69	8.52	8.74	8.85	8.56	9.00	8.79	9.02	9.17	8.85	9.27	9.08
Latin America	4.67	4.71	4.87	4.96	4.89	4.86	4.82	4.98	5.07	5.01	4.97	4.93	5.11	5.18	5.12	5.08
Middle East	5.27	5.51	5.45	5.79	5.62	5.59	5.79	5.74	6.08	5.91	5.88	6.10	6.05	6.37	6.21	6.18
Africa	2.73	2.80	2.83	2.73	2.84	2.80	2.89	2.92	2.81	2.94	2.89	2.99	3.01	2.90	3.03	2.98
Total Non-OECD	30.57	31.99	32.76	32.55	33.33	32.66	33.30	33.23	33.71	34.85	33.78	34.60	34.73	35.09	36.12	35.14
World	79.22	82.10	80.91	81.68	83.77	82.12	83.86	81.79	83.33	85.90	83.72	85.58	83.65	85.17	87.61	85.51
<b>of which:</b>																
US	20.03	20.60	20.54	20.82	20.97	20.73	20.80	20.54	21.11	21.28	20.93	21.09	20.85	21.36	21.52	21.20
Euro4	8.30	8.36	8.07	8.34	8.44	8.30	8.18	8.09	8.32	8.39	8.24	8.14	8.05	8.29	8.37	8.21
Japan	5.50	5.98	4.87	5.12	5.45	5.35	6.05	4.98	5.09	5.53	5.41	6.04	4.93	5.10	5.59	5.41
Korea	2.18	2.30	2.02	2.00	2.27	2.15	2.40	2.06	2.03	2.35	2.21	2.41	2.10	2.08	2.38	2.24
Mexico	1.95	1.96	1.96	1.95	2.01	1.97	2.01	2.08	2.03	2.04	2.04	2.09	2.09	2.08	2.12	2.10
Canada	2.21	2.31	2.26	2.31	2.36	2.31	2.35	2.24	2.33	2.40	2.33	2.36	2.27	2.36	2.41	2.35
Brazil	2.04	2.06	2.12	2.21	2.18	2.14	2.09	2.16	2.24	2.22	2.18	2.13	2.21	2.28	2.26	2.22
India	2.47	2.66	2.64	2.46	2.61	2.59	2.77	2.63	2.51	2.72	2.66	2.85	2.75	2.61	2.80	2.75
<b>Annual Change (% per annum)</b>																
North America	1.7	3.1	4.1	2.9	3.5	3.4	1.2	0.4	1.6	1.5	1.2	1.5	1.4	1.3	1.3	1.4
Europe	1.0	1.1	0.1	0.6	2.1	1.0	-0.4	0.8	0.5	0.2	0.3	0.1	-0.1	0.2	0.0	0.0
Pacific	1.5	-4.2	-2.4	2.8	-3.2	-1.9	2.2	2.2	0.3	2.1	1.7	0.2	0.3	1.0	1.3	0.7
Total OECD	1.4	1.0	1.7	2.1	1.8	1.7	0.9	0.8	1.0	1.2	1.0	0.8	0.8	0.9	0.9	0.8
FSU	3.4	-8.4	15.8	9.0	2.6	4.2	6.3	-3.5	-1.8	2.2	0.7	1.6	0.7	1.3	1.1	1.2
Europe	3.8	2.5	2.5	3.0	3.1	2.8	2.6	2.6	2.6	2.7	2.6	2.5	2.5	2.5	2.5	2.5
China	11.0	18.0	23.4	9.2	12.0	15.4	4.3	-1.4	7.7	9.0	4.9	6.7	9.5	8.0	6.1	7.5
Other Asia	1.2	6.5	9.4	4.4	3.6	5.9	3.8	2.1	2.9	3.6	3.1	3.2	3.6	3.4	3.0	3.3
Latin America	-1.8	4.9	5.0	3.9	2.8	4.1	2.2	2.3	2.1	2.3	2.3	2.3	2.6	2.2	2.2	2.3
Middle East	1.9	5.3	8.9	5.5	4.7	6.0	5.1	5.3	5.0	5.2	5.2	5.3	5.3	4.8	5.1	5.1
Africa	1.6	2.2	3.0	3.1	2.6	2.7	3.3	3.3	3.1	3.3	3.2	3.2	3.2	3.1	3.1	3.1
Total Non-OECD	2.9	5.7	11.1	5.8	5.0	6.8	4.1	1.5	3.6	4.5	3.4	3.9	4.5	4.1	3.6	4.0
World	2.0	2.8	5.3	3.6	3.1	3.7	2.1	1.1	2.0	2.5	2.0	2.1	2.3	2.2	2.0	2.1
<b>Annual Change (mb/d)</b>																
North America	0.40	0.76	0.99	0.71	0.86	0.83	0.30	0.10	0.40	0.39	0.30	0.39	0.36	0.34	0.33	0.36
Europe	0.16	0.16	0.02	0.10	0.33	0.15	-0.06	0.12	0.08	0.03	0.04	0.01	-0.02	0.03	0.00	0.01
Pacific	0.13	-0.41	-0.19	0.23	-0.29	-0.16	0.20	0.18	0.02	0.19	0.14	0.02	0.02	0.08	0.12	0.06
Total OECD	0.69	0.51	0.81	1.03	0.90	0.82	0.44	0.40	0.50	0.61	0.49	0.42	0.37	0.45	0.44	0.42
FSU	0.12	-0.32	0.51	0.31	0.10	0.15	0.22	-0.13	-0.07	0.09	0.03	0.06	0.03	0.05	0.04	0.04
Europe	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
China	0.55	0.96	1.24	0.53	0.71	0.86	0.27	-0.09	0.49	0.59	0.32	0.44	0.61	0.54	0.44	0.51
Other Asia	0.09	0.51	0.74	0.35	0.30	0.47	0.32	0.19	0.24	0.31	0.27	0.28	0.32	0.29	0.27	0.29
Latin America	-0.08	0.22	0.23	0.19	0.13	0.19	0.11	0.11	0.11	0.11	0.11	0.11	0.13	0.11	0.11	0.11
Middle East	0.10	0.27	0.44	0.30	0.25	0.32	0.28	0.29	0.29	0.29	0.29	0.30	0.30	0.29	0.30	0.30
Africa	0.04	0.06	0.08	0.08	0.07	0.07	0.09	0.09	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09
Total Non-OECD	0.85	1.72	3.27	1.78	1.59	2.09	1.31	0.48	1.16	1.51	1.12	1.30	1.50	1.39	1.27	1.36
World	1.54	2.24	4.08	2.81	2.48	2.90	1.75	0.87	1.66	2.13	1.60	1.72	1.86	1.84	1.71	1.78
<b>Changes from Last Month's Report</b>																
North America	-	0.01	-	-	-	-	0.06	0.02	-0.04	0.12	0.04	0.09	0.09	-0.04	0.13	0.07
Europe	-	0.01	-	-	-	-	0.02	0.02	0.01	-	0.01	0.01	0.01	-0.01	-	-
Pacific	-0.01	-	-	-	-	-	-	0.10	0.03	-	0.03	0.04	0.04	0.01	0.02	0.03
Total OECD	-0.01	0.02	-	-	-	-	0.08	0.14	-0.01	0.12	0.08	0.14	0.14	-0.05	0.15	0.10
FSU	-	-	-	-	-	-	-	-0.01	-0.08	0.05	-0.01	-0.09	-0.02	-0.01	0.06	-0.01
Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-0.03	-0.12	-0.01	-0.04	-0.02	-0.02	-0.02	-0.02	-0.02
Other Asia	-	-0.01	-0.04	-	0.06	-	-	-0.06	-0.03	0.06	-0.01	-	-0.05	-	0.07	0.01
Latin America	-	0.01	-0.01	-0.01	0.01	-	0.03	0.04	-0.02	0.01	0.02	0.03	0.04	-0.02	0.01	0.02
Middle East	-0.17	-0.18	-0.18	-0.15	-0.21	-0.18	-0.19	-0.19	-0.16	-0.22	-0.19	-0.20	-0.20	-0.17	-0.24	-0.20
Africa	-	-0.01	-0.02	0.02	0.01	-	-0.02	-0.02	0.02	0.01	-	-0.02	-0.02	0.02	0.01	-
Total Non-OECD	-0.17	-0.18	-0.24	-0.15	-0.13	-0.18	-0.18	-0.27	-0.39	-0.10	-0.23	-0.28	-0.27	-0.20	-0.10	-0.21
World	-0.18	-0.17	-0.24	-0.15	-0.13	-0.17	-0.09	-0.13	-0.39	0.01	-0.15	-0.14	-0.13	-0.24	0.05	-0.12

**Table 3**  
**WORLD OIL PRODUCTION**  
(million barrels per day)

	2004	2005	2006	1Q05	2Q05	3Q05	4Q05	1Q06	May 05	Jun 05	Jul 05
<b>OPEC</b>											
Crude Oil											
Saudi Arabia	8.75			8.92	9.21				9.26	9.22	9.27
Iran	3.93			3.87	3.96				4.00	4.00	4.05
Iraq	1.99			1.79	1.82				1.80	1.83	1.87
UAE	2.35			2.38	2.37				2.37	2.31	2.41
Kuwait	2.05			2.10	2.12				2.13	2.11	2.11
Neutral Zone	0.60			0.60	0.57				0.57	0.57	0.57
Qatar	0.78			0.78	0.78				0.78	0.79	0.80
Nigeria	2.32			2.36	2.43				2.42	2.45	2.48
Libya	1.55			1.61	1.65				1.65	1.65	1.65
Algeria	1.20			1.31	1.34				1.34	1.35	1.35
Venezuela	2.17			2.13	2.13				2.12	2.12	2.12
Indonesia	0.97			0.95	0.94				0.94	0.94	0.95
Total Crude Oil	28.65			28.78	29.32				29.37	29.32	29.60
Total NGLs <sup>1</sup>	4.32	4.78	5.16	4.69	4.70	4.83	4.91	5.06	4.73	4.75	4.82
<b>Total OPEC</b>	<b>32.97</b>			<b>33.48</b>	<b>34.01</b>				<b>34.10</b>	<b>34.06</b>	<b>34.42</b>
<b>NON-OPEC<sup>2</sup></b>											
<b>OECD</b>											
<b>North America</b>	14.59	14.61	14.83	14.42	14.65	14.53	14.85	14.92	14.71	14.63	14.21
United States	7.67	7.77	7.75	7.73	7.78	7.76	7.82	7.82	7.81	7.78	7.62
Mexico	3.83	3.81	3.79	3.75	3.87	3.74	3.86	3.83	3.88	3.87	3.55
Canada	3.09	3.04	3.29	2.95	3.00	3.02	3.18	3.27	3.02	2.98	3.04
<b>Europe</b>	6.09	5.75	5.49	5.94	5.77	5.47	5.81	5.76	5.83	5.50	5.57
UK	2.05	1.89	1.69	2.00	1.93	1.75	1.87	1.81	1.92	1.89	1.79
Norway	3.19	3.01	3.00	3.08	2.99	2.88	3.12	3.14	3.05	2.77	2.92
Others	0.85	0.85	0.80	0.86	0.86	0.84	0.83	0.82	0.86	0.84	0.85
<b>Pacific</b>	0.58	0.57	0.57	0.55	0.56	0.58	0.59	0.58	0.57	0.57	0.56
Australia	0.54	0.53	0.53	0.50	0.52	0.53	0.55	0.54	0.53	0.52	0.52
Others	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
<b>Total OECD</b>	<b>21.26</b>	<b>20.93</b>	<b>20.89</b>	<b>20.91</b>	<b>20.98</b>	<b>20.57</b>	<b>21.26</b>	<b>21.26</b>	<b>21.11</b>	<b>20.70</b>	<b>20.34</b>
<b>NON-OECD</b>											
<b>Former USSR</b>	11.22	11.60	12.09	11.42	11.47	11.66	11.83	11.87	11.44	11.46	11.59
Russia	9.23	9.49	9.78	9.34	9.37	9.54	9.68	9.67	9.36	9.42	9.48
Others	1.99	2.11	2.30	2.07	2.10	2.12	2.15	2.19	2.08	2.05	2.11
<b>Asia</b>	6.24	6.36	6.48	6.36	6.26	6.36	6.46	6.50	6.24	6.36	6.39
China	3.48	3.62	3.62	3.63	3.61	3.63	3.62	3.63	3.61	3.65	3.63
Malaysia	0.86	0.84	0.87	0.84	0.77	0.86	0.88	0.88	0.74	0.79	0.86
India	0.80	0.78	0.80	0.80	0.80	0.74	0.77	0.80	0.79	0.81	0.78
Others	1.10	1.12	1.19	1.08	1.07	1.14	1.20	1.20	1.10	1.11	1.12
<b>Europe</b>	0.17	0.16	0.15	0.16	0.16	0.16	0.15	0.15	0.16	0.16	0.16
<b>Latin America</b>	4.08	4.32	4.50	4.14	4.36	4.38	4.39	4.43	4.37	4.39	4.38
Brazil	1.80	2.02	2.26	1.85	2.03	2.07	2.11	2.17	2.03	2.06	2.06
Argentina	0.80	0.76	0.71	0.77	0.77	0.76	0.75	0.72	0.77	0.76	0.76
Colombia	0.53	0.52	0.50	0.53	0.53	0.51	0.49	0.50	0.53	0.52	0.52
Ecuador	0.53	0.55	0.55	0.53	0.54	0.55	0.56	0.56	0.56	0.55	0.55
Others	0.43	0.48	0.48	0.46	0.48	0.49	0.48	0.49	0.48	0.49	0.49
<b>Middle East<sup>3</sup></b>	1.91	1.81	1.75	1.84	1.81	1.81	1.80	1.77	1.82	1.81	1.81
Oman	0.79	0.75	0.73	0.76	0.75	0.75	0.75	0.75	0.76	0.75	0.75
Syria	0.50	0.48	0.45	0.49	0.48	0.47	0.47	0.46	0.48	0.48	0.48
Yemen	0.42	0.38	0.36	0.39	0.38	0.39	0.38	0.37	0.38	0.38	0.39
<b>Africa</b>	3.40	3.74	4.27	3.57	3.62	3.80	3.97	4.11	3.63	3.63	3.74
Egypt	0.71	0.69	0.67	0.70	0.69	0.69	0.68	0.68	0.69	0.69	0.69
Angola	0.99	1.22	1.48	1.12	1.15	1.27	1.33	1.39	1.16	1.17	1.23
Gabon	0.24	0.23	0.23	0.23	0.23	0.24	0.24	0.24	0.23	0.23	0.23
Others	1.47	1.59	1.88	1.51	1.54	1.60	1.72	1.81	1.54	1.54	1.58
<b>Total Non-OECD</b>	<b>27.01</b>	<b>27.99</b>	<b>29.23</b>	<b>27.49</b>	<b>27.68</b>	<b>28.16</b>	<b>28.61</b>	<b>28.83</b>	<b>27.66</b>	<b>27.80</b>	<b>28.06</b>
Processing Gains <sup>4</sup>	1.83	1.86	1.90	1.88	1.85	1.84	1.88	1.92	1.84	1.84	1.84
<b>TOTAL NON-OPEC</b>	<b>50.11</b>	<b>50.78</b>	<b>52.03</b>	<b>50.27</b>	<b>50.52</b>	<b>50.58</b>	<b>51.74</b>	<b>52.01</b>	<b>50.61</b>	<b>50.34</b>	<b>50.24</b>
<b>TOTAL SUPPLY</b>	<b>83.08</b>			<b>83.75</b>	<b>84.53</b>				<b>84.71</b>	<b>84.40</b>	<b>84.65</b>

<sup>1</sup> Includes condensates reported by OPEC countries, oil from non-conventional sources, e.g. Orimulsion Orinoco extra-heavy oil, and non-oil inputs to Saudi Arabian MTBE

<sup>2</sup> Comprises crude oil, condensates, NGLs and oil from non-conventional sources

<sup>3</sup> Includes small amounts of production from Israel, Jordan and Bahrain

<sup>4</sup> 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<sup>1</sup> AND QUARTERLY STOCK CHANGES**

	RECENT MONTHLY STOCKS <sup>2</sup>					PRIOR YEARS' STOCKS <sup>2</sup>			STOCK CHANGES			
	in Million Barrels					in Million Barrels			in mb/d			
	Feb2005	Mar2005	Apr2005	May2005	Jun2005*	Jun2002	Jun2003	Jun2004	3Q2004	4Q2004	1Q2005	2Q2005
<b>North America</b>												
Crude	425.8	432.8	447.5	450.8	446.6	428.0	397.8	418.4	-0.26	0.07	0.36	0.15
Motor Gasoline	258.2	244.8	243.2	247.4	246.1	246.8	236.9	237.9	-0.04	0.11	0.00	0.01
Middle Distillate	189.7	175.3	175.0	181.1	191.7	204.2	182.4	182.6	0.14	0.04	-0.26	0.18
Residual Fuel Oil	50.0	48.8	44.5	45.4	45.6	41.7	43.5	45.2	-0.04	0.10	-0.02	-0.04
Total Products <sup>3</sup>	652.4	626.0	636.1	667.8	692.8	681.5	637.3	629.7	0.26	0.01	-0.32	0.73
Total <sup>4</sup>	1221.5	1197.8	1219.2	1260.9	1279.8	1262.0	1185.6	1193.2	0.17	-0.09	-0.03	0.90
<b>Europe</b>												
Crude	333.0	347.2	343.1	363.0	360.8	324.5	327.2	339.2	-0.07	-0.09	0.25	0.15
Motor Gasoline	130.1	121.3	119.2	115.4	113.1	118.9	111.1	110.1	0.02	0.04	0.06	-0.09
Middle Distillate	239.5	246.0	249.9	254.2	252.8	257.3	233.4	234.1	0.17	-0.12	0.08	0.08
Residual Fuel Oil	69.9	68.6	70.1	75.6	74.5	69.8	67.5	77.4	-0.01	-0.03	-0.06	0.07
Total Products <sup>3</sup>	542.1	540.9	542.5	547.2	542.3	553.8	517.0	520.5	0.22	-0.10	0.10	0.02
Total <sup>4</sup>	945.2	962.1	960.6	983.0	974.9	942.8	913.1	929.5	0.15	-0.20	0.41	0.14
<b>Pacific</b>												
Crude	168.4	169.0	158.5	171.3	170.4	173.6	188.8	176.6	-0.09	0.03	-0.02	0.02
Motor Gasoline	27.1	25.2	25.7	25.7	23.4	26.3	25.3	24.6	-0.01	0.00	0.01	-0.02
Middle Distillate	58.2	48.8	55.1	62.5	58.7	75.0	71.6	60.3	0.16	0.00	-0.29	0.11
Residual Fuel Oil	21.6	21.2	21.5	24.7	23.6	24.9	24.8	22.6	-0.01	0.01	-0.01	0.03
Total Products <sup>3</sup>	171.3	154.9	164.3	177.9	172.0	194.1	190.4	172.3	0.15	0.02	-0.37	0.19
Total <sup>4</sup>	407.0	389.5	392.0	422.0	414.4	446.6	452.3	419.5	0.11	0.01	-0.45	0.27
<b>Total OECD</b>												
Crude	927.3	949.0	949.1	985.1	977.7	926.1	913.7	934.1	-0.42	0.00	0.59	0.32
Motor Gasoline	415.4	391.3	388.1	388.5	382.6	392.0	373.3	372.6	-0.03	0.16	0.07	-0.10
Middle Distillate	487.3	470.0	479.9	497.7	503.2	536.5	487.5	477.0	0.47	-0.08	-0.48	0.37
Residual Fuel Oil	141.5	138.6	136.2	145.7	143.7	136.4	135.7	145.1	-0.07	0.08	-0.09	0.06
Total Products <sup>3</sup>	1365.8	1321.8	1342.9	1392.9	1407.1	1429.4	1344.6	1322.5	0.64	-0.07	-0.59	0.94
Total <sup>4</sup>	2573.7	2549.4	2571.8	2665.8	2669.2	2651.3	2550.9	2542.2	0.44	-0.28	-0.08	1.32

**OECD GOVERNMENT-CONTROLLED STOCKS<sup>5</sup> AND QUARTERLY STOCK CHANGES**

	RECENT MONTHLY STOCKS <sup>2</sup>					PRIOR YEARS' STOCKS <sup>2</sup>			STOCK CHANGES			
	in Million Barrels					in Million Barrels			in mb/d			
	Feb2005	Mar2005	Apr2005	May2005	Jun2005*	Jun2002	Jun2003	Jun2004	3Q2004	4Q2004	1Q2005	2Q2005
<b>North America</b>												
Crude	682.0	688.2	691.9	693.9	696.5	576.5	608.5	662.4	0.09	0.06	0.14	0.09
Products	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.00	0.00	0.00	0.00
<b>Europe</b>												
Crude	160.5	160.3	160.9	160.9	160.9	145.7	154.3	157.9	0.00	0.07	-0.04	0.01
Products	209.1	209.4	206.0	206.7	206.7	202.3	203.7	204.9	0.00	0.00	0.04	-0.03
<b>Pacific</b>												
Crude	384.5	384.5	384.5	384.5	383.5	380.8	383.0	386.8	-0.02	0.00	0.00	-0.01
Products	11.0	11.0	11.0	11.0	11.1	7.3	9.6	11.0	0.00	0.00	0.00	0.00
<b>Total OECD</b>												
Crude	1227.0	1233.0	1237.3	1239.3	1240.9	1102.9	1145.8	1207.1	0.06	0.12	0.10	0.09
Products	222.2	222.4	219.1	219.7	219.8	211.6	215.3	218.0	0.00	0.00	0.04	-0.03
Total <sup>4</sup>	1450.2	1456.4	1457.3	1460.1	1461.7	1315.5	1362.1	1426.0	0.07	0.13	0.14	0.06

\* estimated

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

2 Closing stock levels.

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

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

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

**Table 5**  
**TOTAL STOCKS ON LAND IN OECD COUNTRIES<sup>1</sup>**  
(‘millions of barrels’ and ‘days’)

	End June 2004		End September 2004		End December 2004		End March 2005		End June 2005 <sup>3</sup>	
	Stock Level	Days Fwd <sup>2</sup> Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand	Stock Level	Days Fwd Demand
<b>North America</b>										
Canada	163.1	71	174.3	74	168.1	72	162.8	-	-	-
Mexico	39.5	20	41.4	21	41.3	21	44.2	-	-	-
United States <sup>4</sup>	1632.9	78	1643.5	78	1646.8	80	1658.8	-	-	-
<b>Total<sup>5</sup></b>	<b>1857.6</b>	<b>73</b>	<b>1881.3</b>	<b>73</b>	<b>1878.4</b>	<b>74</b>	<b>1887.9</b>	<b>75</b>	<b>1978.4</b>	<b>77</b>
<b>Pacific</b>										
Australia	34.9	39	34.3	38	33.2	38	34.8	-	-	-
Japan	622.0	121	632.0	116	635.3	105	604.9	-	-	-
Korea	152.9	76	152.1	67	149.4	62	137.4	-	-	-
New Zealand	7.7	52	7.1	48	8.0	49	7.9	-	-	-
<b>Total</b>	<b>817.4</b>	<b>100</b>	<b>825.5</b>	<b>94</b>	<b>825.9</b>	<b>87</b>	<b>785.0</b>	<b>97</b>	<b>809.0</b>	<b>99</b>
<b>Europe<sup>6</sup></b>										
Austria	20.3	66	20.2	70	21.0	77	20.8	-	-	-
Belgium	26.5	46	27.7	39	27.2	40	26.9	-	-	-
Czech Republic	15.9	73	16.9	81	16.3	86	17.0	-	-	-
Denmark	15.8	89	18.1	94	16.2	86	16.3	-	-	-
Finland	23.4	106	24.0	105	24.4	110	26.2	-	-	-
France	183.5	94	188.5	94	186.2	90	187.4	-	-	-
Germany	267.1	99	264.1	97	267.2	106	280.5	-	-	-
Greece	30.8	78	34.1	76	35.7	77	35.7	-	-	-
Hungary	20.1	152	18.7	128	17.8	140	21.1	-	-	-
Ireland	10.7	63	11.1	60	11.7	60	10.6	-	-	-
Italy	134.6	71	138.7	73	135.8	73	133.7	-	-	-
Luxembourg	1.0	16	0.9	14	0.9	14	0.9	-	-	-
Netherlands	102.3	110	110.2	113	108.3	109	109.4	-	-	-
Norway	30.0	131	23.3	84	24.0	98	26.6	-	-	-
Poland	30.1	64	31.1	66	30.6	74	33.9	-	-	-
Portugal	26.2	76	25.0	73	24.3	68	25.6	-	-	-
Slovak Republic	6.5	88	5.9	81	6.0	92	6.8	-	-	-
Spain	127.3	82	126.8	79	119.8	72	126.7	-	-	-
Sweden	31.1	88	31.5	87	33.8	93	32.0	-	-	-
Switzerland	37.5	138	37.8	135	36.3	131	37.1	-	-	-
Turkey	54.8	78	55.2	82	55.9	101	55.4	-	-	-
United Kingdom	97.6	54	97.7	55	96.8	56	102.2	-	-	-
<b>Total</b>	<b>1293.2</b>	<b>83</b>	<b>1307.6</b>	<b>82</b>	<b>1296.1</b>	<b>83</b>	<b>1332.8</b>	<b>87</b>	<b>1343.5</b>	<b>86</b>
<b>Total OECD</b>	<b>3968.2</b>	<b>81</b>	<b>4014.4</b>	<b>80</b>	<b>4000.3</b>	<b>79</b>	<b>4005.7</b>	<b>82</b>	<b>4130.9</b>	<b>83</b>
<b>DAYS OF IEA Net Imports<sup>7</sup></b>	-	113	-	114	-	114	-	114	-	-

1 Total Stocks are industry and government-controlled stocks (see breakdown in table below). Stocks are primary national territory stocks on land (excluding utility stocks and including pipeline and entrepot stocks where known) they include stocks held by industry to meet IEA, EU and national emergency reserves commitments and are subject to government control in emergencies.

2 Note that days of forward demand represent the stock level divided by the forward quarter average daily demand and is very different from the days of net imports used for the calculation of IEA Emergency Reserves.

3 End June 2005 forward demand figures are IEA Secretariat forecasts.

4 US figures exclude US territories.

5 Total includes US territories.

6 Data not available for Iceland.

7 Reflects stock levels and prior calendar year's net imports adjusted according to IEA emergency reserve definitions. Net exporting IEA countries are excluded.

### TOTAL OECD STOCKS

CLOSING STOCKS	Total	Government <sup>1</sup> controlled		Industry	Total	Government <sup>1</sup> controlled	
		Millions of Barrels				Days of Fwd. Demand <sup>2</sup>	
2Q2002	3967	1316	2651	83	28	55	
3Q2002	3897	1321	2576	79	27	52	
4Q2002	3821	1345	2476	77	27	50	
1Q2003	3787	1359	2428	80	29	51	
2Q2003	3913	1362	2551	81	28	53	
3Q2003	3981	1380	2601	80	28	52	
4Q2003	3924	1408	2516	78	28	50	
1Q2004	3887	1421	2467	81	29	51	
2Q2004	3968	1426	2542	81	29	52	
3Q2004	4014	1432	2582	80	28	51	
4Q2004	4000	1444	2556	79	29	51	
1Q2005	4006	1456	2549	82	30	53	
2Q2005	4131	1462	2669	83	29	54	

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

2 Days of forward demand calculated using actual demand except in 2Q2005 (when latest forecasts are used).

**Table 6**  
**IEA Member Country Destinations of Selected Crude Streams<sup>1</sup>**  
(million barrels per day)

	2002	2003	2004	2Q04	3Q04	4Q04	1Q05	Mar 05	Apr 05	May 05	Year Earlier	
											May 04	change
<b>Saudi Light &amp; Extra Light</b>												
North America	0.64	0.64	0.55	0.56	0.56	0.52	0.45	0.42	0.42	0.54	0.47	0.07
Europe	0.92	1.00	1.03	1.05	1.04	1.08	0.88	0.76	0.83	0.92	0.98	-0.06
Pacific	1.22	1.18	1.24	1.13	1.23	1.47	1.40	1.33	1.17	1.29	1.07	0.22
<b>Saudi Medium</b>												
North America	0.70	0.83	0.80	0.73	0.86	0.90	0.97	1.00	0.92	0.77	0.77	0.00
Europe	0.11	0.11	0.11	0.07	0.11	0.16	0.12	0.11	0.13	0.13	0.08	0.05
Pacific	0.16	0.24	0.23	0.20	0.18	0.23	0.21	0.21	0.24	0.22	0.25	-0.03
<b>Saudi Heavy</b>												
North America	0.20	0.30	0.22	0.14	0.30	0.26	0.18	0.15	0.11	0.20	0.12	0.08
Europe	0.09	0.19	0.23	0.26	0.31	0.20	0.19	0.19	0.18	0.18	0.20	-0.02
Pacific	0.12	0.16	0.15	0.13	0.16	0.18	0.25	0.33	0.19	0.21	0.07	0.14
<b>Iraqi Basrah Light<sup>2</sup></b>												
North America	0.35	0.44	0.71	0.74	0.68	0.67	0.56	0.53	0.66	0.86	0.66	0.20
Europe	0.08	0.09	0.21	0.27	0.21	0.13	0.19	0.24	0.22	0.20	0.43	-0.23
Pacific	0.02	0.03	0.12	0.08	0.12	0.15	0.07	..	0.13	..	0.07	..
<b>Iraqi Kirkuk</b>												
North America	0.14	0.06	0.02	0.04	0.01	0.01	..	..	..	..	..	..
Europe	0.32	0.12	0.08	0.07	0.03	0.16	0.02	0.02	0.02	0.02	0.05	-0.03
Pacific	0.00	..	..	..	..	..	..	..	..	..	..	..
<b>Iranian Light</b>												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.17	0.19	0.24	0.23	0.23	0.27	0.23	0.24	0.22	0.17	0.19	-0.02
Pacific	0.12	0.17	0.16	0.13	0.16	0.16	0.19	0.23	0.10	0.15	0.12	0.03
<b>Iranian Heavy<sup>3</sup></b>												
North America	..	..	..	..	..	..	..	..	..	..	..	..
Europe	0.44	0.59	0.57	0.61	0.65	0.54	0.62	0.48	0.64	0.66	0.52	0.13
Pacific	0.54	0.69	0.65	0.65	0.58	0.63	0.76	0.82	0.67	0.60	0.66	-0.05
<b>Venezuelan Light &amp; Medium</b>												
North America	0.68	0.69	0.67	0.78	0.64	0.63	0.78	0.80	0.88	0.93	0.74	0.19
Europe	0.08	0.02	0.01	0.02	0.02	0.01	0.02	..	0.02	0.01	0.02	0.00
Pacific	0.00	0.00	..	..	..	..	..	..	..	..	..	..
<b>Venezuelan 22 API and heavier</b>												
North America	0.55	0.60	0.88	0.91	0.86	0.95	0.83	0.79	0.95	0.71	0.95	-0.24
Europe	0.05	0.06	0.05	0.07	0.06	0.04	0.06	0.05	0.06	0.04	0.07	-0.04
Pacific	..	..	..	..	..	..	..	..	..	..	..	..
<b>Mexican Maya</b>												
North America	0.92	1.32	1.36	1.43	1.34	1.37	1.30	1.30	1.29	1.41	1.46	-0.05
Europe	0.17	0.16	0.16	0.19	0.20	0.13	0.18	0.15	0.12	0.22	0.17	0.05
Pacific	0.00	0.00	0.00	..	..	..	..	..	..	..	..	..
<b>Mexican Isthmus</b>												
North America	0.01	0.00	..	..	..	..	0.01	0.01	..	..	..	..
Europe	0.01	0.00	0.01	..	..	0.02	0.02	0.03	..	..	..	..
Pacific	0.01	0.00	0.00	..	..	..	..	..	..	..	..	..
<b>Russian Urals</b>												
North America	0.03	0.14	0.12	0.14	0.12	0.21	0.14	0.18	0.34	0.03	0.07	-0.04
Europe	1.32	1.62	1.86	1.98	1.78	1.56	1.72	1.85	1.97	2.21	1.95	0.26
Pacific	0.01	0.00	0.01	0.01	0.01	..	..	..	0.00	..	0.03	..
<b>Nigerian Light<sup>4</sup></b>												
North America	0.38	0.63	0.80	0.90	0.78	0.73	0.87	0.79	0.86	0.99	0.88	0.11
Europe	0.32	0.41	0.28	0.22	0.30	0.30	0.30	0.22	0.24	0.30	0.16	0.14
Pacific	0.06	0.08	0.11	0.10	0.09	0.13	0.06	0.05	0.06	0.06	0.12	-0.06
<b>Nigerian Medium</b>												
North America	0.16	0.17	0.23	0.21	0.22	0.20	0.18	..	0.22	0.13	0.11	0.02
Europe	0.06	0.06	0.04	0.04	0.05	0.02	0.07	0.08	0.00	0.06	0.02	0.03
Pacific	0.01	0.01	0.01	..	..	..	0.03	0.08	0.03	0.03	..	..

<sup>1</sup> 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.

<sup>2</sup> Iraqi Total minus Kirkuk.

<sup>3</sup> Iranian Total minus Iranian Light.

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

**Table 7**  
**Regional OECD Imports<sup>1,2</sup>**  
(thousand barrels per day)

	2002	2003	2004	2Q2004	3Q2004	4Q2004	1Q2005	Mar-05	Apr-05	May-05	Year Earlier	
											May-04	% change
<b>Crude Oil</b>												
North America	7584	8069	8394	8557	8547	8442	8577	8588	8618	8189	8637	-5%
Europe	8725	9087	9487	9499	9664	9519	9687	9112	9311	10185	9360	8%
Pacific	6422	6711	6659	6170	6457	6998	7166	7264	6297	6642	6150	7%
<b>Total OECD</b>	<b>22731</b>	<b>23867</b>	<b>24540</b>	<b>24226</b>	<b>24668</b>	<b>24960</b>	<b>25430</b>	<b>24965</b>	<b>24227</b>	<b>25015</b>	<b>24146</b>	<b>3%</b>
<b>LPG</b>												
North America	39	27	24	14	20	45	23	20	7	0	4	-
Europe	225	193	232	195	215	267	293	280	183	155	171	-10%
Pacific	553	541	541	585	469	561	532	537	619	604	655	-9%
<b>Total OECD</b>	<b>817</b>	<b>760</b>	<b>796</b>	<b>794</b>	<b>705</b>	<b>874</b>	<b>848</b>	<b>837</b>	<b>809</b>	<b>759</b>	<b>830</b>	<b>-9%</b>
<b>Naphtha</b>												
North America	42	67	86	51	96	144	124	142	81	96	50	48%
Europe	298	305	292	326	243	268	279	289	209	260	330	-27%
Pacific	705	770	769	761	787	748	772	755	791	741	762	-3%
<b>Total OECD</b>	<b>1045</b>	<b>1142</b>	<b>1148</b>	<b>1139</b>	<b>1126</b>	<b>1160</b>	<b>1175</b>	<b>1185</b>	<b>1081</b>	<b>1096</b>	<b>1142</b>	<b>-4%</b>
<b>Gasoline<sup>3</sup></b>												
North America	643	669	765	865	806	744	849	823	972	983	836	15%
Europe	152	150	164	157	132	163	172	152	132	144	153	-6%
Pacific	58	70	105	118	90	106	95	107	109	142	113	21%
<b>Total OECD</b>	<b>853</b>	<b>888</b>	<b>1034</b>	<b>1140</b>	<b>1028</b>	<b>1014</b>	<b>1115</b>	<b>1082</b>	<b>1213</b>	<b>1269</b>	<b>1101</b>	<b>13%</b>
<b>Jet &amp; Kerosene</b>												
North America	97	97	88	102	88	116	67	89	42	47	121	-160%
Europe	253	271	252	233	307	259	274	259	349	329	188	43%
Pacific	97	102	77	60	52	103	97	110	77	83	61	27%
<b>Total OECD</b>	<b>448</b>	<b>470</b>	<b>417</b>	<b>395</b>	<b>447</b>	<b>478</b>	<b>438</b>	<b>458</b>	<b>468</b>	<b>459</b>	<b>370</b>	<b>19%</b>
<b>Gasoil/Diesel</b>												
North America	102	126	122	92	108	91	110	54	77	105	102	3%
Europe	656	652	732	647	756	849	930	1038	735	576	502	13%
Pacific	53	73	74	92	79	66	60	63	95	101	106	-5%
<b>Total OECD</b>	<b>811</b>	<b>850</b>	<b>928</b>	<b>831</b>	<b>943</b>	<b>1006</b>	<b>1101</b>	<b>1154</b>	<b>907</b>	<b>782</b>	<b>710</b>	<b>9%</b>
<b>Heavy Fuel Oil</b>												
North America	237	326	388	317	346	524	489	438	432	401	334	17%
Europe	470	398	411	435	448	404	415	522	622	527	359	32%
Pacific	89	88	76	77	87	64	83	84	83	96	96	0%
<b>Total OECD</b>	<b>796</b>	<b>812</b>	<b>876</b>	<b>828</b>	<b>882</b>	<b>992</b>	<b>988</b>	<b>1044</b>	<b>1137</b>	<b>1024</b>	<b>788</b>	<b>23%</b>
<b>Other Products</b>												
North America	689	680	824	701	951	774	735	690	890	1039	727	30%
Europe	735	690	689	702	709	687	734	843	868	758	623	18%
Pacific	256	235	256	265	261	252	254	236	309	208	275	-32%
<b>Total OECD</b>	<b>1681</b>	<b>1605</b>	<b>1770</b>	<b>1667</b>	<b>1920</b>	<b>1713</b>	<b>1724</b>	<b>1770</b>	<b>2067</b>	<b>2006</b>	<b>1625</b>	<b>19%</b>
<b>Total Products</b>												
North America	1849	1991	2297	2140	2416	2439	2399	2257	2500	2670	2173	19%
Europe	2790	2657	2773	2694	2810	2896	3098	3382	3098	2749	2326	15%
Pacific	1811	1879	1898	1958	1825	1901	1894	1892	2084	1976	2068	-5%
<b>Total OECD</b>	<b>6451</b>	<b>6527</b>	<b>6968</b>	<b>6793</b>	<b>7051</b>	<b>7236</b>	<b>7391</b>	<b>7531</b>	<b>7682</b>	<b>7394</b>	<b>6566</b>	<b>11%</b>
<b>Total Oil</b>												
North America	9434	10061	10691	10698	10963	10881	10976	10845	11118	10858	10810	0%
Europe	11515	11744	12259	12193	12474	12415	12785	12494	12409	12934	11685	10%
Pacific	8233	8590	8558	8128	8282	8899	9059	9156	8382	8617	8217	5%
<b>Total OECD</b>	<b>29181</b>	<b>30394</b>	<b>31508</b>	<b>31019</b>	<b>31720</b>	<b>32196</b>	<b>32821</b>	<b>32496</b>	<b>31909</b>	<b>32409</b>	<b>30712</b>	<b>5%</b>

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 2005), for information on the data sources, definitions, technical terms and general approach used in preparing the Report. It should be noted that the spot crude and product price assessments are based on daily Platt's prices, converted when appropriate to US\$ per barrel according to the Platt's specification of products (©2005 Platt's - a division of McGraw-Hill Inc.).

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