OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:
Demand destruction dominates oil market

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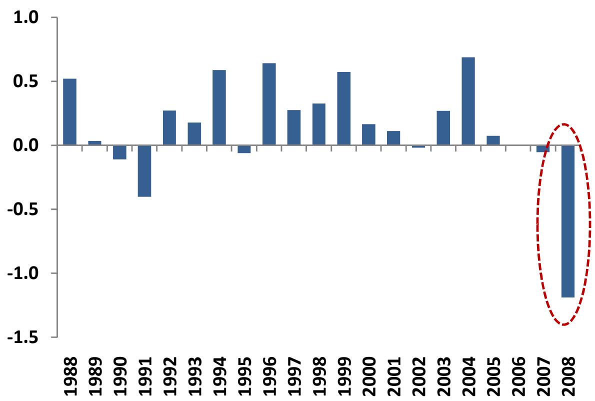
Oil Market Highlights

- The OPEC Reference Basket continued to fall in October. The financial crisis dominated market sentiment as the economic slowdown dented petroleum demand growth. Uncertainty about bailout plans in the US while the turmoil spread worldwide signaled fears of a looming recession. Losses on the equity market, despite a move by central banks around the world to safeguard the financial system, highlighted the deteriorating economic sentiment. This was reflected in the equity markets which exhibited sharp volatility, mostly on the downside. In October, the Basket averaged $69.16/b for a drop of $27.69 or nearly 29%, the largest monthly drop ever recorded, to a level last seen in August 2007. The sharp downward trend continued in November, with the price at $49.09/b on 14 November.
- The forecast for the global economy in 2009 has been revised down 0.4 pp to 2.9% due to the rapidly worsening conditions in the real economy. The Euro-zone entered into technical recession in 3Q08 for the first time since the introduction of the single currency. The US economy contracted by 0.3% in 3Q08 and is expected to exhibit negative growth in the current quarter and possibly beyond. Unemployment in the US rose sharply to 6.5% with more than half a million jobs shed in the last two months alone. Central banks across the globe have moved to lower interest rates. Although money markets have eased, confidence in equity markets in October evaporated and share prices fell sharply. As spillover effects to emerging markets become stronger and commodity prices continue to fall, more countries are being affected. Attention is now turning to the need for fiscal stimulus measures to lessen the depth and reduce the duration of the economic turndown. Coordinated measures to address the crisis were considered in the Washington G-20 Summit. Following downward revisions, US growth in 2009 is now forecast at 0.3%, Euro-zone growth at 0.2% and Japanese growth is expected to turn negative at minus 0.2%. Developing Countries are now expected to grow at 4.9% while China's growth forecast now stands at 8.8% in 2009.
- The fall in prices might help fourth-quarter oil demand to some degree but is not anticipated to overcome the affects of the economic downturn. Fourth-quarter oil demand is forecast to show growth of only 0.4 mb/d y-o-y. In addition to the strong decline in transport fuel, oil consumption in the petrochemical industry is also falling sharply. Due to the drop in oil demand in the OECD, world oil demand in 2008 was revised down by 0.26 mb/d to show minor growth of 0.28 mb/d. In 2009, oil demand will increase mainly in the Middle East, Asia, and China which is estimated at 820 tb/d or 74% of the total Non-OECD forecast oil demand growth next year. OECD countries are expected to experience a decline in oil demand which is likely to pull total world oil demand growth down by more than 0.5 mb/d in 2009, representing a revision of 0.2 mb/d.
- Non-OPEC oil supply is expected to average 49.7 mb/d in 2008, representing an increase of 0.2 mb/d over the previous year and a downward revision of 92 tb/d from last month's assessment. Main contributors to the revision are the USA and FSU countries. In 2009, non-OPEC oil supply is expected to average 50.4 mb/d, representing an increase of 0.7 mb/d versus the current year and a downward revision of 220 tb/d from the last assessment as companies have cut capital expenditures in response to the financial crisis. In October, OPEC crude production averaged 32.0 mb/d according to secondary sources, representing a drop of 0.13 mb/d from the previous month.
- Upon completion of refinery maintenance and resumption of normal operation by refineries, particularly in the US, after major temporarily shutdown at the hurricanes in the US Gulf, product market sentiment changed significantly. This combined with falling product demand due to further deterioration in world economic growth has exerted downward pressure on product prices and refining economics. Due to the disappointing outlook for world economy and lower demand projections for various barrel components, the current bearish sentiment of the product markets may continue in the coming months, putting more pressure on both crude and product prices. While the cold weather in the Atlantic Basin may provide some support for crude prices, it would not be enough to switch the bearish market sentiment.
- OPEC spot fixtures averaged 12.09 mb/d in October, 2.4% higher than in the previous month, supported by higher OPEC fixtures outside the Middle East. OPEC sailings were once again steady, averaging 23.0 mb/d. Arrivals in the US increased by a substantial 15% last month in line with the sharp 1.59 mb/d surge in US crude imports compared to September. Spot freight rates for crude oil tankers declined by 12% in October impacted by the overall pessimistic economic outlook and the steep falling of the equity markets. Product freight rates were also lower in October with the trans-Atlantic route showing the largest drop.
- US commercial oil inventories recovered from the low levels seen in September after having lost 44 mb on the back of hurricanes to increase by 39 mb in October. Inventories now stand slightly below 1,000 mb, the second-highest level so far this year. Crude oil stocks rose 11.6 mb to hit 312 mb, the highest level since last April, while product inventories jumped 27 mb. In terms of demand, US commercial oil inventories are very comfortable with all the main components above the five-year average. In EU-15 plus Norway, total oil inventories increased a further 1.7 mb to approach 1,120 mb, which corresponds to the five-year average. In Japan, commercial oil stocks rose in September for the third consecutive month adding almost 8 mb to approach 200 mb, the highest level in more than a year.
- The demand for OPEC crude in 2008 is expected to average 31.8 mb/d, a decline of 430 tb/d from the previous year. In 2009, the demand for OPEC crude is expected to average 30.9 mb/d, a drop of 910 tb/d.

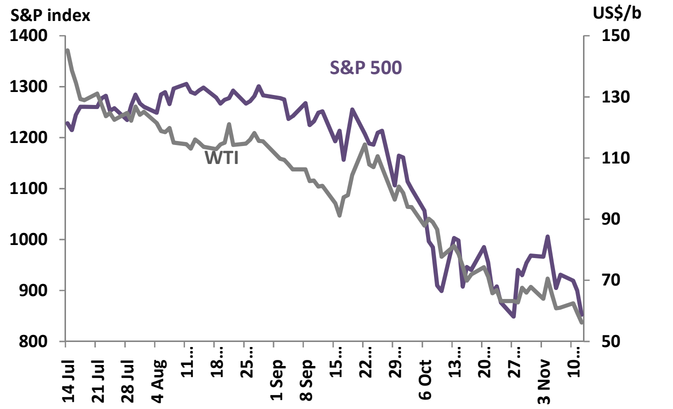
Demand destruction dominates oil market

- Crude oil prices have fallen sharply since mid-July. Among the factors behind the sharp decline in prices have been the steady slowdown in the OECD economies, weakening oil demand growth and the strengthening of the US dollar as well as reduced speculative activity and hence an outflow of investments from the paper oil market. This is particularly noticeable in the US where the actual data for oil demand growth from January to October indicate a drop of 1.2 mb/d, the largest decline since 1980 (*see **Graph 1***).
- On top of the overall downward trend, crude oil price volatility has increased markedly since mid-September, following the deepening of the financial crisis after the bankruptcy of Lehman Brothers. During this period, day-to-day changes have jumped by more than 6%, compared to less than 4% in early July. Intraday volatility has also increased considerably. At the same time, the pace of the decline in oil prices has accelerated. These developments reflect the volatility in equity and currency markets (*see **Graph 2***) as panic spread and confidence in the financial system crumbled along with faith in the ability of governments to redress the damage. Although emergency measures by monetary authorities have averted a worst case scenario in financial markets, and money markets have since eased, confidence has not yet been restored.

Graph 1: US total oil demand growth, Jan-Oct, mb/d



Graph 2: WTI crude prices vs. equity market



- The consequences of the financial turmoil and the continued losses accumulating on bank balance sheets mean that lending to consumers and corporations has not eased. Mortgage rates remain at higher than expected levels and conditions had tightened even further for consumers and corporations. The oil market has not been exempt from this development and there is evidence that scarce credit is affecting some aspects of the market.
- Meanwhile, the real economy appears to be moving from bad to worse. The global economy is slowing down faster-than-expected, which is being reflected in downward revisions of forecasts for economic growth for the rest of 2008 and for 2009. It is almost certain that the major OECD countries are now in a synchronised recessionary phase and the rest of the world is being affected to a greater degree than previously anticipated.
- In response, central banks in both developed and developing countries have moved to lower interest rates. However, as the limits of monetary policy in some countries are being reached, attention is turning to targeted fiscal policies than can quickly stimulate growth. One of the main purposes of the recent G-20 summit in Washington was to coordinate such measures on a global scale to increase their effectiveness. While these efforts are not expected to reverse the downturn, there is some hope that these stimulus measures will help limit the length and severity of the global recession. The $586 bn stimulus package recently announced by China will certainly play an important part in this effort.
- Despite these efforts, the downbeat economic forecasts have darkened the outlook for oil demand substantially. Some institutions are even forecasting a contraction in oil demand in the coming year. In light of these developments, OPEC decided at its 150th Extraordinary Meeting of the Conference to reduce production by 1.5 mb/d effective 1 November. The full impact of the decision will take time to show up in the market. However, the rising risk of a prolonged global economic recession with further downward uncertainties for oil demand growth continues to undermine market sentiment, placing strong downward pressure on prices.
- In the current extremely volatile situation, closer monitoring and more frequent intervention are required. OPEC will continue to carefully follow oil market developments ahead of the OPEC Ministerial Meeting in Oran, Algeria, and stands ready to take the necessary decisions to support oil market stability.

No 15/2008 **Vienna, 24 October 2008**

150^{TH} (EXTRAORDINARY) MEETING OF THE OPEC CONFERENCE

The 150^{th} (Extraordinary) Meeting of the Conference of the Organization of the Petroleum Exporting Countries (OPEC) convened at OPEC Headquarters, Vienna, Austria, on 24 October 2008, under the Chairmanship of the President of the Conference, His Excellency Dr Chakib Khelil, Minister of Energy and Mines of Algeria and Head of its Delegation.

The Conference extended a warm welcome to HE Eng. Jose Maria Botelho de Vasconcelos, Minister of Petroleum of Angola, and HE Derlis Palacios Guerrero, Minister of Mines and Petroleum of Ecuador, who were attending a Meeting of the Conference for the first time since their appointment, and they paid tribute to their predecessors in office, HE Desidério da Graça Veríssimo e Costa of Angola and HE Dr Galo Zambrano Chiriboga of Ecuador.

The Extraordinary Meeting having been convened in order to allow the Conference to discuss the current global financial crisis, the world economic situation and their impacts on the oil market, the Conference began by emphasizing that it shared the concern of the international community – of which OPEC Member Countries are an integral part – over ongoing developments in financial markets.

The Conference observed that the financial crisis is already having a noticeable impact on the world economy, dampening the demand for energy, in general, and oil in particular. This slowdown in oil demand is serving to exacerbate the situation in a market which has been over-supplied with crude for some time, an observation which the Organization has been making since earlier this year. Moreover, forecasts indicate that the fall in demand will deepen, despite the approach of winter in the northern hemisphere.

Similarly worryingly, the Conference noted that oil prices have witnessed a dramatic collapse – unprecedented in speed and magnitude – these falling to levels which may put at jeopardy many existing oil projects and lead to the cancellation or delay of others, possibly resulting in a medium-term supply shortage.

Given the foregoing, the Conference will continue to provide to the market crude oil volumes required by consumers. Accordingly, the Conference has decided to decrease the current OPEC-11 production ceiling of 28.808 million barrels a day by 1.5 mb/d, effective 1 November 2008, with Member Countries strongly emphasizing their firm commitment to ensuring that the volumes they supply to the market are reduced by the individually agreed amounts, as shown below.

	Decrease (b/d)
Algeria	71,000
Angola	99,000
Ecuador	27,000
I. R. Iran	199,000
Kuwait	132,000
Libya	89,000
Nigeria	113,000
Qatar	43,000
Saudi Arabia	466,000
U.A.E.	134,000
Venezuela	129,000
Total	**1,500,000**

This decision will be reviewed at the Extraordinary Meeting of the Conference scheduled to convene in Oran, Algeria, on 17 December 2008. In the interim, the Conference requested the Secretariat to continue to closely monitor the market.

The Heads of Delegation again stressed the Organization’s proven commitment to providing adequate supplies of petroleum to consuming nations at all times, as well as to realizing its objective of maintaining crude oil prices at fair and equitable levels for the benefit of the world economy and the wellbeing of the market. At the same time, the Conference pointed out that OPEC cannot be expected to bear alone the burden of restoring equilibrium and it called on non-OPEC producers/exporters to contribute to efforts to restore prices to reasonable levels and eliminate harmful and unnecessary fluctuations.

The Conference expressed its appreciation to the Government of the Republic of Austria and the authorities of the City of Vienna for their warm hospitality and the excellent arrangements made for the Meeting.

Moscow **October 24, 2008**

Joint Press Release

Continuation of high-level dialogue between OPEC and Russia

HE Dmitry Medvedev, President of the Russian Federation and HE Abdalla Salem El Badri, Secretary General of the Organisation of Petroleum Exporting Countries (OPEC) met on 22nd October, 2008, in Moscow. The meeting was attended by Russia's Deputy Prime Minister, Igor Sechin, Minister of Energy, Sergei Shmatko, as well as high-level officials.

The President of the Russian Federation recalled the role of OPEC Member Countries and Russia, as major energy and oil producers and exporters. He underlined the importance of the cooperation between OPEC and Russia and highlighted the Russian readiness for a continuous and comprehensive dialogue with OPEC, for the purpose of achieving stable and predictable oil markets. This is particularly important, given the development of turmoil in international financial markets and its adverse influence on the world economy and oil markets.

HE Abdalla El Badri stated that the dialogue with the Russian Federation is of key importance. He described the behaviour of oil markets since the middle of last year, stressing that they remained well supplied and that the observed high volatility was mainly caused by non-fundamentals, such as the value of the dollar and the speculation in futures markets and in non-regulated exchanges, where the daily volume of traded paper barrels by far exceeds the volume of physical barrels produced. He also noted the negative consequences of the current global financial crisis both on the world economy as a whole and on oil exporting countries. Having reviewed OPEC's recent assessment of market conditions and outlook, he stated that the situation called for increased vigilance and a proactive stance.

Both parties shared the concern that the current turmoil might have large negative impacts on the volume of investments in the oil sector, and might lead to cancelation of projects and freeze the launching of new oil and gas projects.

It was also agreed that the development of the dialogue and cooperation between OPEC and its Member Countries, and the Russian Federation is essential to overcome such a crisis and to ensure stability of the oil market, something which is crucial for producers and consumers alike, both in the short- and the long-term.

HE Abdalla El Badri also made a keynote presentation at the opening ceremony of the International Energy Week, addressing the current oil market situation as well as the long-term challenges facing the oil industry. OPEC's delegation additionally held working meetings with high-level Russian officials.

During the Third OPEC-Russia workshop held on the 23rd October, issues were examined related to the current state of the world oil market and long-term perspectives, among them the oil and gas sectors in the Russian Federation, as well as global environmental and world trade matters.

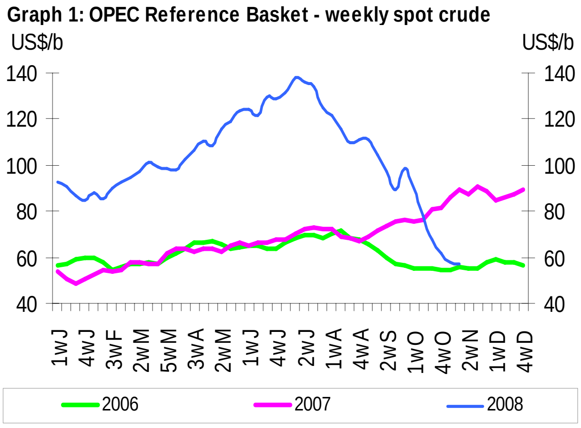
The fourth workshop is planned to be held next year at OPEC's Headquarters in Vienna.

Crude Oil Price Movements

The spreading financial turmoil exerted pressure on the economy denting oil demand growth

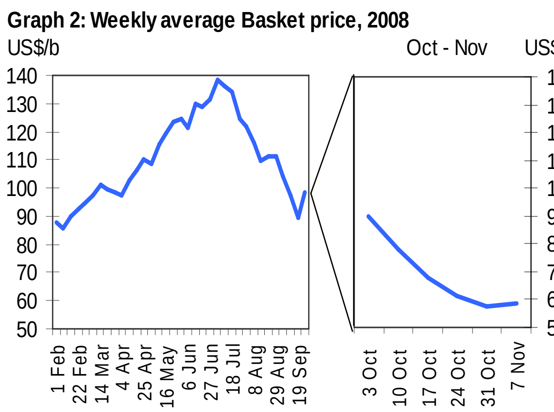
OPEC Reference Basket

The petroleum market emerged in October reacting uncertainly to the US financial bailout plan. Ample crude oil supply added to the market bearishness. The weaker economy was seen slowing oil demand growth. Hence, the OPEC Reference Basket plunged in the first week by $8.27/b or 8.4% to settle at $90.01/b. The outlook continued to deteriorate into the second week on concerns that the US financial market turmoil might spread worldwide triggering an outflow of investment away from the dollar-denominated commodities. Signs of a recession were seen to indicate a further decline in demand growth. Thus, OPEC called for an Extraordinary Meeting of the Conference on 18 November to discuss the impact of the global financial crisis on the oil market. The Basket plunged in the second week by a further 13.4% or $12.03/b to average $77.98/b. Skepticism over the financial system liquidity around the globe raised fears of an economic downturn ahead amid signs of demand destruction.



Although OPEC advanced the Extraordinary Meeting of the Conference to 24 October eying a potential output cut limiting market bearishness, the petroleum market continued to lose momentum with the Basket plunging into the third week by $10.10/b or almost 13% to settle at $67.88/b. In the fourth week, the market digested a potential OPEC output cut which helped maintain some bullish momentum. Nonetheless, a plunge in the multinational oil companies' shares on lower spending dominated market bearishness and outweighed OPEC's decision to cut 1.5 mb/d with immediate effect on 1 November. However, this limited the drop of the Basket which settled $6.35/b or 9.4% lower at $61.53/b. In the final week, continued concern over demand growth amidst spreading of the financial crisis worldwide was offset by the weakening of the US dollar against major currencies which prevented the petroleum market from a further plunge. The volatility of the US dollar continued to swing oil prices, while signs that OPEC cut was taking effect pointed to lower supplies ahead. The interest rate cut by major central banks shortly boosted stability of sentiment in the marketplace along with covering of short positions in the final week of the month. The Basket averaged the fifth week $3.89/b or 6.3% lower at $57.64/b, the lowest level since March 2007.

On a monthly basis, the Basket dropped to its lowest level since March last year. The financial crisis dominated the bearishness. Uncertainty over the bailout plans in the US while the turmoil spread worldwide triggered recession fears. Adding to concerns were losses in the equity market despite a move by central banks around the world in an attempt to safeguard the financial system. An early perception of OPEC output cut boosted sentiment over tight supply. However, the reduction of expenditure plans by major multinational oil companies caused the equity market to further lose momentum. Thus, the Basket averaged $69.16/b in October for a drop of $27.69/b or nearly 29%, the largest one-month loss ever recorded, to a level last seen in August 2007. The downward fluctuation of the Basket continued into November with the Basket falling to $53.79/b month-to-date, the lowest level since January 2007.

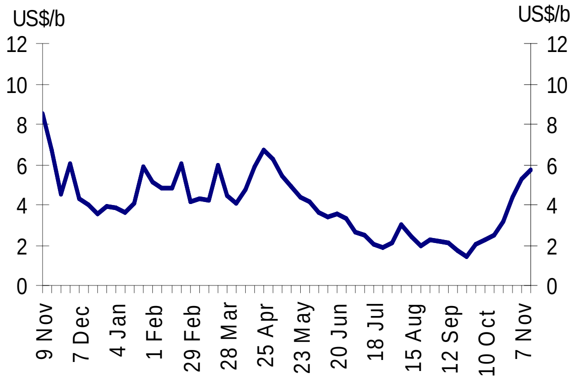


Weak demand amid a crisis of the financial system pressured US domestic light crude

US market

The sweet crude saw some support from prolonged outages from the Gulf of Mexico on the back of Hurricanes Gustav and Ike which supported the inland crude. Adding to the pressure was the tumbling economy as the bailout plan was seen yet to be approved by the US congress. The WTI/WTS spread averaged the first week at $2.07/b or 61¢ wider. The gloomy economy outlook exacerbated the pressure on the petroleum demand at the time of a healthy build in US gasoline and crude oil stocks amid rising imports. The average WTI/WTS spread widened further into the second week gaining 23¢ to $2.30/b. Weaker refining margins while gasoline inventories continued to build and crude stocks rose more than anticipated continued to pressure the light grade in the US domestic market. The widened transatlantic spread also pressured the domestic market. In the third week, the average WTI/WTS spread widened a further 16¢ to $2.46/b. The pressure on the light grade mounted as the economic outlook was seen indicating a potential recession which would dent demand for petroleum products. A healthy build in light-end products added to market bearishness. Thus, the WTI/WTS spread in the fourth week widened by $3.17/b or 71¢, the highest level since early August. Light crude remained under pressure in the US domestic market, amid another build in distillate stocks while heating oil inventories also rose. Lower demand for light-end products as the transatlantic spread attracted rival grades, added to the pressure on US domestic crude. The WTI/WTS spread in the final week averaged $4.40/b, a gain of $1.23, the widest weekly spread since May. WTI averaged in October $76.62/b, a decline of $27.53/b or 26%, widening the premium to WTS by $1.05 to $2.94/b, the widest monthly level since June.

Graph 3: WTI spread to WTS, 2007-2008

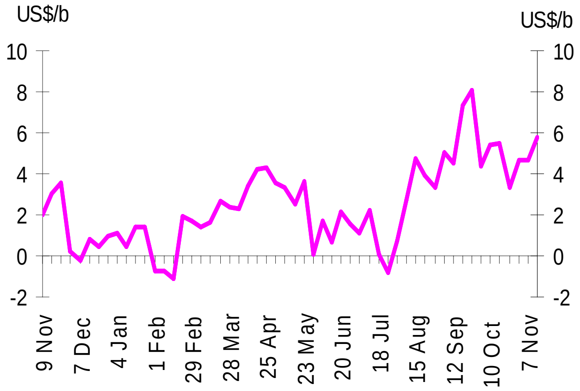


Outright prices dropped as refineries returned from maintenance supporting North Sea differentials

North Sea market

North Sea crudes were firming amid a plunge in the outright prices ahead of the emerging regional new loading programmes. However, fear over an economy turndown as signs of recession were looming kept buyers on the sidelines. Nonetheless, Brent discount to WTI was nearly halved to average the first week at $4.38/b. The sentiment shifted in the second week with demand seen rising on the return of some refineries from maintenance. Yet, the softening front-end swap due to available October prompt stems capped sentiment. Brent traded on average $1.05 wider at $5.43/b below WTI when it peaked to $8.55/b in the second week. The perception of lower demand was balanced by steady refining margins. However, plenty of supply exerted downward pressure on the crude differentials into the third week. The average WTI/Brent spread was steady at $5.51/b. Nonetheless, clearing of most prompt stems lent support to the regional market as most European refineries had completed maintenance. However, the uncertainty over market direction kept the market quiet. Brent discount to WTI was $2.14 narrower at $3.37/b in the third week. Market activities continued to be subdued by skepticism over the health of the economy and demand for petroleum products. On the other hand, lower outright prices prevented the differentials from tumbling further. The WTI/Brent spread was $1.27 wider at $4.64/b. Brent averaged in October $71.87/b for a drop of $26.26/b or 27%. Yet, the discount to WTI narrowed $1.27 to $4.75/b.

Graph 4: WTI premium to Dated Brent, 2007-2008



Ample supply and the return of the Azeri grade pressured Urals crude

Mediterranean market

Plenty supply of Russian Urals pressured the grade differentials in North-West Europe while they were firming in the Mediterranean. Nonetheless, unsold prompt stems weighed on differentials. The average Urals discount to Brent doubled in the first week to $1.58/b, the widest since July. Urals weakness continued into the second week amid available prompt October barrels. The resumed production of the Azeri crude platform that had been closed since September added to the supply of light crude. Thus, Urals discount to Brent averaged the second week 46¢ wider at $2.04/b. However, the sentiment firmed in the third week on fewer cargoes available as maintenance at Primorsk was seen supportive. Moreover, the stronger crack spread for fuel oil prompted some Asian fuel oil to head westward. Hence, refinery demand picked up supporting the grade with the discount to Brent 41¢ narrower at 1.63/b. Sluggish demand for naphtha affected the light sweet grade, yet it was seen enhancing firmness of light sour crude. Continued healthier fuel oil crack spread also lent support with the opening of arbitrage opportunities for crude flowing westward. Thus, Brent premium to Urals was 51¢ narrower at $1.12/b in the fourth week. Nonetheless, the narrowing refining margins momentarily pressured the grade, while tight supply kept the grade differentials in check as Russian oil firms will cut export by 9% on government opposing to lower export duties adding to the firmness quality of Azeri crude value. Urals discount to Brent narrowed 64¢ to a seven-week low of 48¢/b. Urals in October averaged $70.51/b, down by $27.10 or nearly 28%, yet the discount to Brent widened 84¢ to $1.36/b, the widest in three months.

Full term allocation amid ample supply pressured the Mideast

Middle Eastern market

The Mideast market emerged on mounted pressure amid ample supply of November barrels in an already bearish market while the absence of many participants due to the Eid Al-Fitre and Chinese national holidays kept cargoes crowded. Dubai discount to Brent averaged $2.28 narrower at $3.75/b, seen attracting the flow of rival crude. The weak sentiment furthered as a major producer cut its November price differentials on limited product demand, making term barrels more attractive than spot cargoes. Yet, lower OSPs also supported the market sentiment pushing the December Mideast grade to trade back into record premium. Nonetheless, volatility resumed on the weak gasoil crack spread. Perception of full volume allocation also lent support to calm market sentiment while off-taker prompted to exercise ship tolerance to load lower volume. Dubai discount to Brent averaged in the second week $4.89/b, or $1.14 wider. Ample supply amid full contract term allocations prompted a lower premium for Oman 2009 term supply compared to the current year. Although falling freight rates were seen to lend support, weaker demand and the tumbling naphtha crack spread kept balance in the marketplace. OPEC advancing its Extraordinary Meeting of the Conference with the perception to trim supply revived some bullishness. Brent premium to Dubai was nearly halved at $2.66/b in the third week. The Brent/Dubai spread was $4.80/b, or $2.14 wider. The market saw some rebound as a Middle East producer trimmed supply in line with the pronounced cut. Lower supply prompted refiners to snatch spot barrels. Dubai discount to Brent was 63¢ narrower at $4.17/b. Dubai averaged in October $28.08/b or 29% narrower at $67.82/b, with the discount to Brent $1.82 wider at $4.05/b, the strongest in five months.

Graph 5: Dated Brent spread to Dubai, 2007-2008

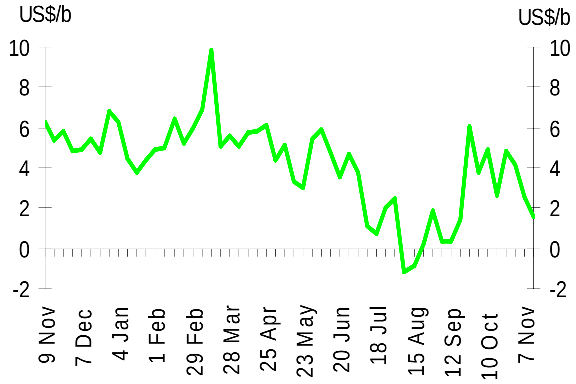


Table 1: OPEC Reference Basket and selected crudes, US$/b

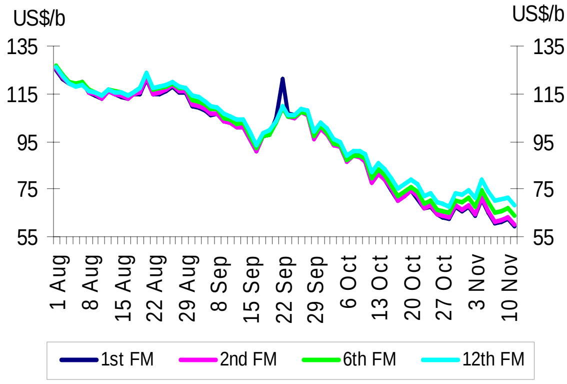
			Change	Year-to-Date	
	Sep 08	Oct 08	Oct/Sep	2007	2008
OPEC Reference Basket	**96.85**	**69.16**	**-27.69**	**63.74**	**103.98**
Arab Light	97.57	69.14	-28.43	63.36	104.76
Basrah Light	94.84	67.99	-26.85	61.12	101.35
BCF-17	96.17	65.86	-30.31	56.41	96.33
Bonny Light	100.48	74.57	-25.91	69.69	110.27
Es Sider	97.28	71.22	-26.06	65.83	106.30
Girassol	96.68	70.63	-26.05	65.32	105.04
Iran Heavy	93.04	66.33	-26.71	61.55	100.83
Kuwait Export	93.15	65.88	-27.27	61.02	100.51
Marine	97.78	68.94	-28.84	64.17	104.13
Minas	101.63	76.80	-24.83	67.74	110.42
Murban	101.32	71.52	-29.80	67.87	108.68
Oriente	89.52	60.57	-28.95	56.59	95.05
Saharan Blend	99.48	73.02	-26.46	69.31	108.70
Other Crudes					
Dubai	95.90	67.82	-28.08	63.42	103.07
Isthmus	100.15	71.96	-28.19	61.78	105.01
T.J. Light	96.65	69.58	-27.07	59.95	101.89
Brent	98.13	71.87	-26.26	67.14	107.03
W Texas Intermediate	104.15	76.62	-27.53	66.08	109.62
Differentials					
WTI/Brent	6.02	4.75	-1.27	-1.06	2.59
Brent/Dubai	2.23	4.05	1.82	3.72	3.95

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

The Oil Futures Market

Ample supply, slower demand and recovery in the US dollar prompted liquidation in an already troubled financial market

Graph 6: Nymex WTI futures prices, 2008



FM = future month

The crude oil futures continued to plummet in New York on the weak economy and fluctuation of the US dollar. Bearish petroleum data in the US the week before added to the market downturn. Weak economy outlook kept the downward trend to sustain strength. The Nymex WTI front month contract closed the **first weekly period** down \$10.58/b or 10.5% at \$90.06/b to average the week at \$92.85, down \$10.68/b. The CFTC reported that non-commercials reduced their long positions by a hefty 27,000 while increasing shorts by a healthy 9,400; thus, net long positions dropped by 36,400 to 3,700 contracts. Open interest volume was 4,800 lower at 1,087,600 contracts. With options included, open interest volume inflated by 140,300 to nearly 2,980,400 lots. Yet, net long positions dropped by a hefty 33,100 to 45,700 contracts, the narrowest level since February 2007.

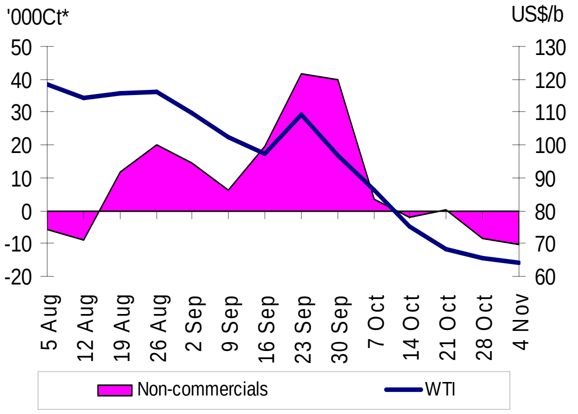
In the **second weekly period**, the sentiment furthered downward with non-commercial net positions flipping into net shorts of nearly 1,900 lots, amid a large build in the short positions while the longs depleted. Nonetheless, open interest volume was 2,700 larger at 1,090,251 lots. With options included, non-commercials net long volume rose 7,500 to nearly 53,200 lots while open interest inflated by a hefty 122,500 to over 3.1 million contracts amid a continued significant increase in commercials and spreading. The weakening world economy implying slower petroleum demand growth supported some liquidation in the futures market prompted by the strengthening of US dollar exchange rate. Nymex WTI front month contracts lost momentum dropping another \$11.43/b or almost 13% to settle at \$78.63/b, to average the week at \$82.61/b or \$10.24 lower.

In the **third weekly period**, healthy builds in the US crude oil and gasoline inventories added to the bearish momentum amidst mounting recession fears, although speculation on the outcome of the OPEC Meeting during the week pushed prices higher. Yet, deteriorating demand growth continued to dominate market sentiment. Nymex WTI front month contracts closed the week down almost 10% or \$7.74 at \$70.89/b, with the weekly average \$10.33 lower at \$72.28/b. Non-commercial volumes flipped back into net long of a marginal less than 500 lots. Yet, open interest volume was 54,500 lower at 1,035,700 contracts, the lowest level since July 2006. With options included, open interest volume fell almost 106,000 lots to retreat below the 3 million level. Nonetheless, non-commercial net long positions widened by a healthy 16,400 to 69,500 contracts amid depletion of spreading.

In the **final weekly period**, non-commercial positions fell back to 8,400 net shorts, yet amid a build in the longs at a slower pace than the shorts. Open interest volume was 37,500 lots wider at 1,073,200 contracts amid a rise in spreading volume. With options included, open interest volume inflated by a significant 223,600 lots to a record of over 3.2 million contracts amid continued significant restoration in spreading followed by commercials. Thus, the volume of non-commercial net long positions inflated by 2,800 to 72,400 lots amid continued significant build in longs. In the fourth weekly period, technical buying ahead of the OPEC Meeting lent support to prices amid covering of short positions. However, continued build in key US petroleum stocks while the market digested slower demand growth prevented prices from rallying further. Concern in the equity market after major international oil companies announced a cut in expenditures sent shares to slumping heavily affecting the already troubled financial market. Nymex WTI closed the weekly period at an 18-month low, down \$8.16 or 11.5% to settle at \$62.73/b. The weekly average plunged over 10% or \$7.34 to stand at \$64.94/b.

On a **monthly basis**, the net volume of non-commercials averaged 1,500 lots net shorts in October as long positions displayed the lowest level since March last year and the shorts were at their lowest level since March of this year. The year-to-date position averaged 37,500 lots net long, some 27% lower than in the same period the year before. Open interest volume averaged 1,071,700 lots for the month, the lowest monthly average since July 2006, and 6% lower than the last year-to- date average. The m-o-m average was down by 109,500 lots and 370,800 lower than in the same period last year, mostly on a drop in spread positions. However, with options included, open interest volume peaked to a record of well over 3 million contracts amid a healthy build in commercials, spreads and non-reportables. Yet, non-commercial net long positions averaged 60,200, down by 14,000 from the previous month and 75,900 lots lower than the year before. The year-to-date average for non-commercial longs was 10.5% higher while open interest volume was nearly 20% higher. Nonetheless, Nymex WTI front month contracts averaged $76.72/b in October, for the largest one-month loss of 26% or $27/b when they closed the month down by almost 33% at $67.81/b. However, large volumes indicate that the market has not liquidated at large. Yet, the indicative is that the bears outweigh the bulls. Economic downturn fears continued to push the petroleum prices lower.

Graph 7: Non-commercial net long positions vs WTI, 2008



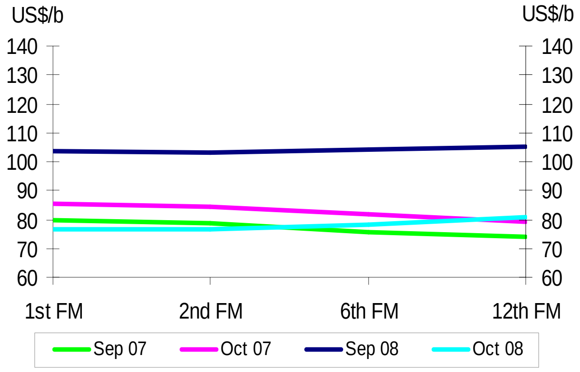
NC = Non-commercials: funds, investments and banks.
Ct = *Each contract is 1,000 barrels.

The Forward Structure

Slower procurements prompted stock-builds a amid bleak economic outlook and weak demand, widening the contango spread

The crude oil market saw some slower demand amid refinery outages and lower utilization run rates, prompting lower procurements. Although lower than last year's level, US crude oil stocks were some 15.6 mb higher than in the previous month. This was despite a recovery in refinery run rates since September, which were still nearly 0.6 mb/d lower than last year's levels. The forward curve flipped again into a slight contango with the 1st/2nd month spread at 10¢. The farther out monthly spreads steepened further in contango with the 1st/6th, 1st/12th and 1st/18th month contango spreads $1.34/b, $2.59/b and $4.28/b wider at $1.63/b, $4.18/b and $6.59/b respectively, implying that farther out prices were holding firm.

Graph 8: Nymex WTI forward curve



FM = future month

Commodity Markets

Commodity prices plummeted by 20%, alongside the deep financial crisis, the stronger dollar and the imminent economic recession in the US and the world which have led to lower demand

Trends in selected commodity markets

Commodity prices plummeted in October across the board due to the speed and extent of the global economic deterioration and despite the adoption of an urgent policy response in an attempt to stop a major economic recession. The worsening of all the economic and financial indicators in the US and the OECD economies casts little doubt on the imminent economic recession with deep global impact and declining demand. Even more when even China and Asia in general have been experiencing a negative impact from the wider economic problems already spread worldwide. Commodity behaviour in general has been strongly correlated to the performance of global GDP. The IMF commodity price index recorded a dramatic fall of 21% in October, compared to a drop of 10% in the previous month, driven by negative growth of 16% in non-fuel commodity prices and 23% in energy prices m-o-m. They have continued over the first week of November with the deepening of the financial crisis which already affected the real side of the economy in the USA leading to estimate the expected global GDP growth for 2009 under the 3% benchmark which is seen as a recessionary level by the IMF. In this context declining commodity demand this year and in 2009 is expected to lead to a short-term gloomy outlook for commodities, which are not expected to improve until financial markets stabilize.

The energy commodity index (crude oil, natural gas and coal) reported the worst performance in October m-o-m (22.9%) with **crude oil prices** (the averaged petroleum spot price) recording a major 27.8% m-o-m to $76.61/b in October and have continued falling and highly volatile **in early November.**

Table 2: Monthly changes in selected commodity prices, 2007-2008

		% Change		% Change
	Aug/July	Sep/Aug	Oct/Sep	Oct 08/Oct 07
Commodity	-10.8	-10.0	-20.8	-5.9
Non-Energy	-6.3	-6.1	-16.1	-13.0
Energy	-12.6	-11.7	-22.9	-1.9
Crude	-13.6	-13.3	-26.8	-11.5
Natural Gas	-25.6	-7.6	-11.6	0.0
Coal	-12.0	-5.3	-25.8	48.7
Agriculture*	8.5	-5.0	-16.7	na
Food	-7.5	-6.6	-15.1	-4.8
Corn	-11.9	-0.5	-21.8	11.5
Soybean Oil	-15.2	-10.5	-22.4	-8.1
Soybeans	-14.1	-6.3	-20.0	-3.2
Wheat	0.4	-10.3	-19.7	-29.2
Sugar	-5.0	-4.9	-5.8	-17.2
Industrial Metals	-6.9	-6.2	-19.9	-26.9
Aluminium	-9.9	-8.6	-15.9	-13.2
Copper	-9.2	-8.6	-29.8	-39.0
Nickel	-4.9	-7.0	-31.7	-61.0
Zinc	-6.6	0.6	-25.3	-56.3
Gold**	-10.7	-1.1	-2.8	na

na Not available
Sources: IMF; Estimations based on data provided by the IMF.
** World Bank Index*
*** Kitco*

Henry Hub gas price also edged down 11.6% m-o-m in October to average US$ 6.69/MMBtu. US natural gas price lost 6.5% from the beginning of October and fell below last year's level since February 2008. As in the case of the whole commodity spectrum this obeyed to the equity market meltdown and the financial crisis. Rising inventories which put them at an adequate level for winter together with the restoration of the production in the Gulf of Mexico also added to the bearish factors. Nevertheless, it must be noted that this Henry Hub performed the best within the energy complex which was related to some supply constraints such as currently several pipeline maintenance projects and production shut-in in the Gulf of Mexico. More than expected cold weather in the last two weeks of October also supported natural gas prices in the US.

Coal prices dropped in **October** as a result of weakening demand and the improvement in port congestion at New Castle in Australia. Volatility for this commodity was very high.

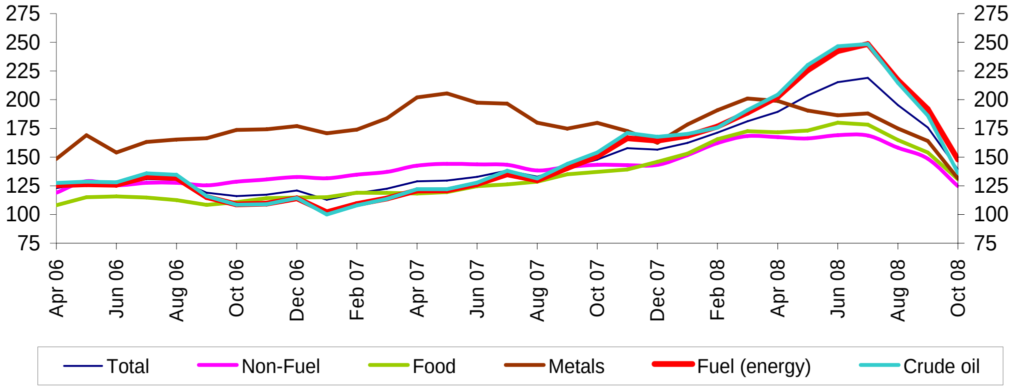
The unprecedented 20% m-o-m collapse in industrial metal prices reflected negative demand indicators and rising inventories

Non-energy commodities dipped 16% m-o-m in October, 13% lower than a year ago, on concern over a global economic recession and declining demand.

The industrial metal price index sank 20% m-o-m in October (and 27% year-to-date through October), compared to 6.2% m-o-m last September, and declined further in early November. The entire industrial metal complex has suffered strongly from the severe economic downturn that has a negative impact on demand for raw materials. The worsening of the economic scenery and the likely global recession and lower demand, consistent with considerable inventory builds during the month, amid the dollar appreciation against the Euro, weighed on industrial metals which are closely linked to the performance of the industrial GDP. The mounting inventories and the move of the forward curve into contango indicated weaker metal fundamentals. It seems that there has been an increase in short-selling in the metal sector which led to short-covering rallies in late October but the recovery in prices was not sustainable (*see **Graphs 10** and **11***).

Copper prices experienced a dramatic 30% m-o-m drop in October, worsening the declining trend growth from last August with the prices at below US$4,000/tonne 39% lower than the year-ago level. Copper spot prices dropped 57% since last May when they peaked and this represents the lowest level since August 2005 and the three-month forward curve moved into contango at the end of October. Rising inventories and the expectations of a severe world economic recession and lower demand explain this outcome. A look at the performance of non-commercials suggests that, following the massive long-liquidation in the last three months, copper was favoured by non-commercials with shorts experiencing a slight rise. The bearish panorama for copper has led producers to consider output adjustments.

Graph 9: Major commodity price indexes, 2006-2008



Commodity Price Index, 2005 = 100

Total	-	Includes both fuel and non-fuel.
Non-fuel	-	Includes food and beverages and industrial inputs.
Food	-	Includes cereal, vegetable oils, meat, seafood, sugar, bananas and oranges.
Metals	-	Includes copper, aluminum, iron ore, tin, nickel, zinc, lead and uranium.
Fuel (energy)	-	Includes crude oil (petroleum), natural gas and coal.
Crude oil	-	Is the simple average of three spot prices: Dated Brent, West Texas Intermediate and Dubai Fateh.

Aluminum prices tumbled at a faster rate than in previous months **by 16% m-o-m in October** compared to a 7% drop last September caused by weakening demand and rallying LME stocks. Aluminum has been hit by lacklustre demand. US demand for this metal reported a 6% y-o-y drop during the first eight months of this year caused by problems in the automotive and construction sectors. The forecast for China's demand has been downgraded and demand is expected to grow by 15% y-o-y or 7% lower than was previously forecast. LME inventories surged from 1,376,000 tonnes to 1,500,000 tonnes. Concerning industry issues, a number of producers announced production cuts due to prices being below the production costs. Although these cuts materialized, there are still some new capacities coming to the market.

Nickel reported the worst performance in the industrial metal complex, falling 32% m-o-m and the three-month cash spread remains in contango. Declining demand from the stainless steel sector on the demand side and rising inventories on the supply side contributed to the dramatic price drop. The International Nickel Supply Study Group (INSSG) estimated a fifth consecutive 105,000 tonnes fall in nickel use and according to the same source a demand recovery in China is not expected until 2009.

After no growth last September, zinc prices suffered a severe loss of 25% being 56% lower than a year ago. Zinc was hit by rising inventories and declining demand in particular from the automotive industry in Asia and OECD countries.

The World Bank's agricultural price index posted an important 16.7% decline in October, the worst in four consecutive months, on weakening demand, falling crude oil prices, investor risk aversion and improved supply outlook. The IMF food price index lost further ground declining 20% m-o-m in October — this loss was 13.7% higher than the drop in the previous month. All agricultural commodities have been badly hurt by the gloomy economic outlook. Wheat dropped strongly by 20% m-o-m on projected record production by the latest USDA report. Soybean also succumbed by 20% due to expectations of lower demand in China and for biodiesel, as well as the bearish news of a strong rise in global supply from the USDA report. The soybean market showed strong long-liquidation in October. The level of activity diminished too.

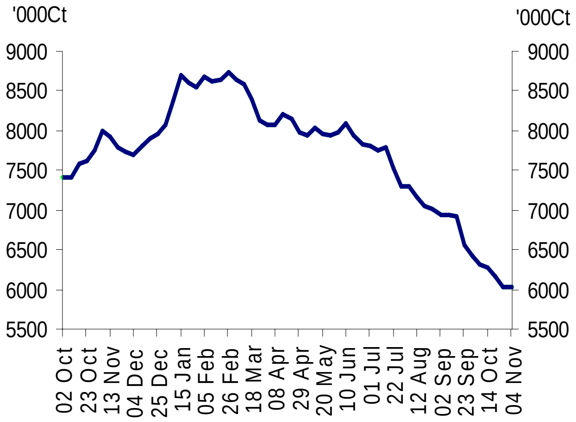
The gold price declined 2.8% m-o-m in October to average $806/toz on the back of the strengthening of the dollar and weaker jewelry demand which dropped sharply during the first half of 2008.

Investment flow into commodities

Open interest in major US commodity markets further declined on increasingly negative economic indicators and the financial crisis

As expected October saw another decline in the open interest volume (OIV) of 558,000 contracts to 6,235,000 m-o-m in major US commodity markets, according to the CFTC, in parallel with the persistent strong decline across commodity prices over the month and accumulation of negative economic and financial indicators and great uncertainty about the further economic development in the next months and years (see ***Table 3** and **Graphs 10 and 11***). The net length as percentage of OIV for the US commodity markets halved in October to 3% compared to 6% last September.

Graph 10: Total open interest volume, 2007- 2008



Source: CFTC

Agriculture recorded a major restraint in activities in the financial markets, the OIV dropping 247,000 to 3,346,000 contracts. The complex saw a decline in long non-commercials of 149,000 to 715,000 contracts while shorts increased by 20,000 to 444,000 contracts. The net length of non-commercials as percentage of OIV dipped further from 11% in September to 7.5% in October. The decline in net length of tactical investors was especially driven in October by corn, sugar and soybeans.

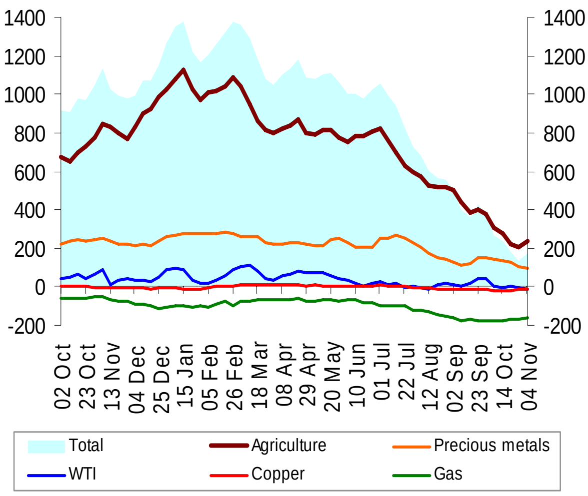
Precious metal was less affected by the deteriorating economic situation relative to other commodities with the non-commercial net length at 28.5% as percentage of OIV being the highest within the commodity complex in October (see Graph 11). Nevertheless, this group of commodities including gold experienced a fall in OIV in October m-o-m and registered a 5,000-contract decline in non-commercial net length. Gold has been relatively favoured by investors despite the decline in prices associated with the strengthening of the dollar.

Table 3: CFTC positions, '000 contracts

	Net Positions		Long Positions		Short positions		Open Interest	
		Change		Change		Change		Change
	Oct 08	Oct/Sep	Oct 08	Oct/Sep	Oct 08	Oct/Sep	Oct 08	Oct/Sep
Crude Oil	-2	-26	172	-26	174	0	1072	-109
Natural Gas	-172	-1	174	-42	346	-42	857	-60
Agriculture	251	-170	715	-149	464	20	3346	-247
Corn	112	-68	219	-60	107	9	995	-58
Soybean Oil	4	0	31	0	27	0	259	3
Soybeans	34	-21	70	-28	36	-7	352	-15
Sugar	92	-25	161	-19	69	6	663	-108
Precious Metals	128	-5	174	-22	46	-17	449	-65
Copper	-18	-5	6	-2	24	3	81	4
Livestocks	1	-8	104	-19	103	-11	430	-81
Total	**189**	**-214**	**1346**	**-260**	**1157**	**-46**	**6235**	**-558**

Despite the dramatic dip in copper prices, this market saw a slight m-o-m increase in the OIV by 4,000 to 81,000 contracts in October. Long liquidation continued in copper but at a lower pace than last September while shorts experienced a soft increase resulting in a further decline in non-commercial futures net positions as percentage of the OIV from minus 16.7% in September to minus 22% in October.

Graph 11: CFTC net length by commodity group, 2007-2008

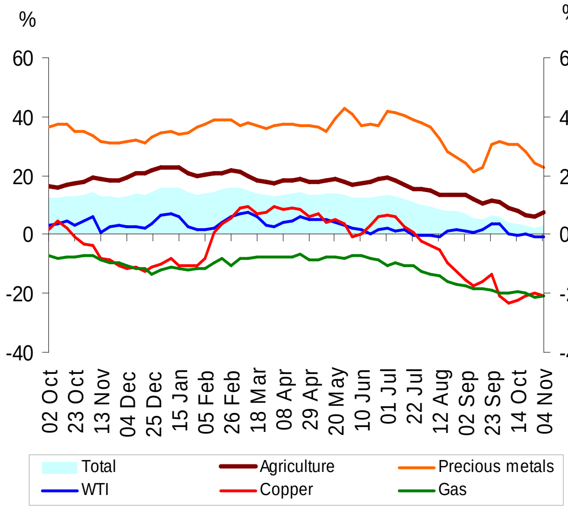


Source: CFTC

The downward trend in non-commercials encouraged retail investors to reduce risk and their exposure to commodities as well. According to Barclays, commodity-linked ETPs showed their worst ever performance in October 2008, the outflow amounting to nearly $2 bn and embracing all sectors. The worst performance corresponded to energy products, which witnessed a withdrawal of $750 mn, while agriculture and commodity indices reported a considerable outflow in the range of $500-550 mn each. Even gold saw outflow in October 2008.

Our estimates of the investment inflow into commodities suggest a 26.82% decline in investment in the two major commodity investment indices on 28 October 2008 compared to 7 October 2008 — an investment outflow of 4.1 bn. All the sectors were hit, with gold showing a milder relative loss (*see* ***Graph 13***).

Graph 12: CFTC net length as % of open interest, 2007-2008



Source: CFTC

Graph 13: Investments in two principal commodity instruments (S&P GSCI and DJ-AIG)

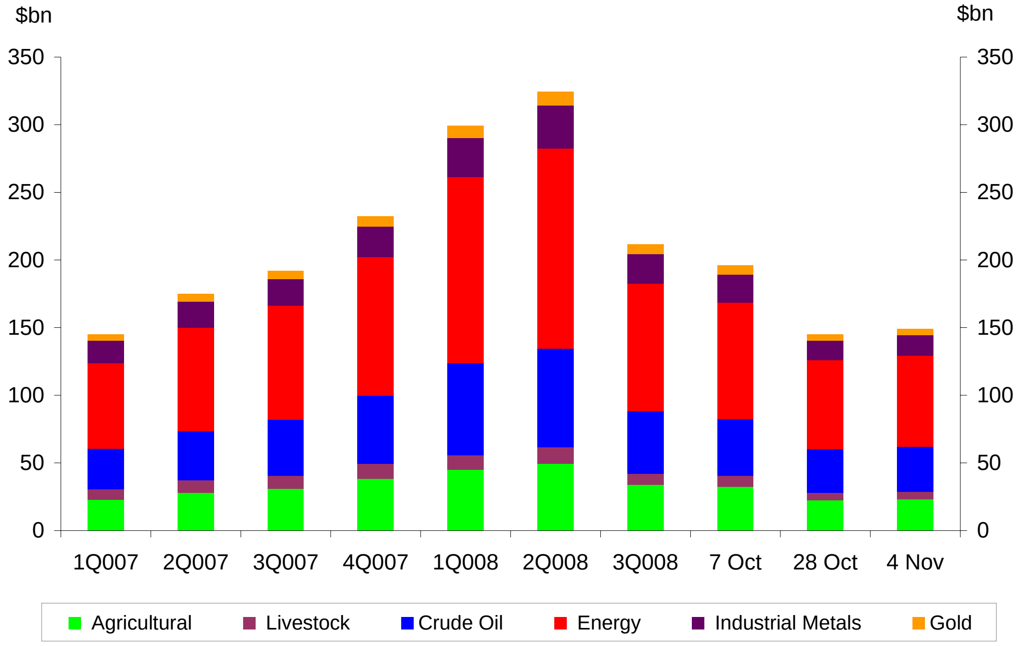


Table 4a: US commodity exchanged traded products (ETP) - monthly flows

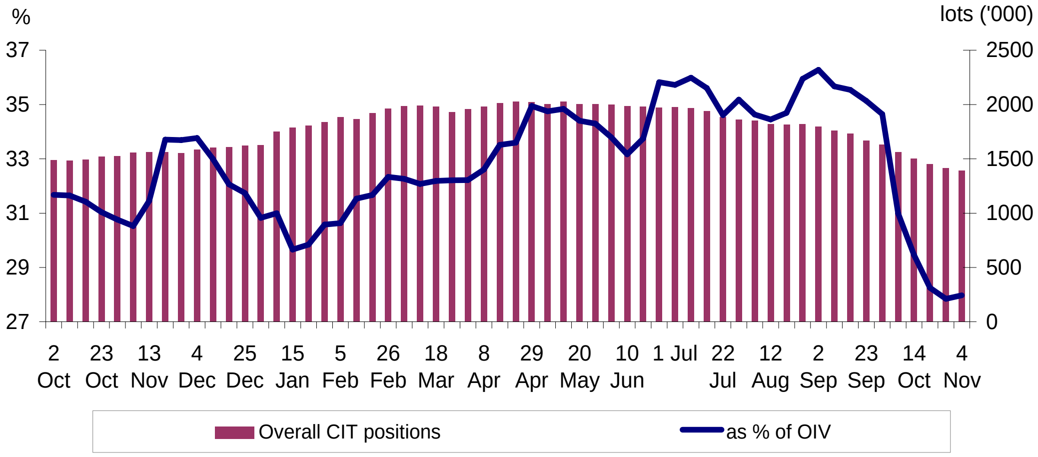
	Long ETP Flows			Short ETP Flows		
	Oct 08	Sep 08	Aug 08	Oct 08	Sep 08	Aug 08
Base	-29	-12.3	-17.0	-8.0	0.0	0.0
Precious	-137	2,939.7	-444.0	-10.0	-1.0	-35.0
Agriculture	-265	-417.7	-94.0	-5.0	0.0	0.0
Energy	-720	971.6	693.0	-95.0	72.0	0.0
Broad-based	-454	-161.5	-87.0	-7.0	-15.0	5.0
Total	**-1605**	**3,319.6**	**51.0**	**-125.0**	**56.0**	**-30.0**

Table 4b: European commodity exchanged traded products (ETP) - weekly flows, 2008

	Long ETP Flows				Short ETP Flows			
	12 Nov	05 Nov	15 Oct	08 Oct	12 Nov	05 Nov	15 Oct	08 Oct
Base	0.9	0.4	-3	-4.6	2.8	4.5	0.1	-8.3
Precious	-108.7	-3.3	140.2	-53.0	0.2	2.2	0.8	-0.6
Agriculture	-14.5	-31	-65.9	-65.7	2.7	-2.5	-0.6	-1.6
Energy	5.2	-23	-11.9	-15.1	-13.2	-6.2	-30.7	-48.6
Broad-based	-.4	1	-1.8	-9.4	-1.7	-1.2	1.1	-0.6
Total	**-117.4**	**57.1**	**57.6**	**-147.9**	**-9.1**	**-3.2**	**-29.3**	**-59.7**

Source: Barclays.

Graph 14: CIT positions in US agricultural futures markets, in volume terms, 2007-2008



Highlights of the World Economy

Economic growth rates 2008-2009, %

	World	OECD	USA	Japan	Euro-zone	China	India
2008	3.7	1.5	1.5	0.5	1.1	9.8	7.3
2009	2.9	0.5	0.3	-0.2	0.2	8.8	7.2

Industrialised countries

United States of America

US economy heading into recession amid rising unemployment and falling retail sales

Recent economic data indicate that the US economy may be sliding into recession as deteriorating financial conditions increasingly impact the real economy. While money markets appear to be easing as seen from the progressive drop in LIBOR rates, confidence in equity markets in October evaporated and share prices fell sharply. The S&P 500 index has lost over 40% so far this year. US Real GDP contracted by 0.3% in 3Q08 according to advance figures from the Department of Commerce and is expected to exhibit negative growth in the current quarter and possibly beyond. The labour market is deteriorating fast, with the unemployment rate rising to a 14-year high of 6.5% in October. Manufacturing is in deep recession and non-manufacturing is also contracting albeit at a lesser pace.

The closely-watched Institute for Supply Management's (ISM) manufacturing index in October dropped to a 26-year low of 38.9. The ISM's non-manufacturing index, which covers almost 90% of the economy, dropped to 44.4, the lowest level since records began in 1997. A reading of 50 is the dividing line between growth and contraction for both indices.

Employment conditions worsened dramatically in the last two months. Reduced access to credit as well as falling demand is causing companies to cut back on payrolls and investment. The rate of unemployment rose alarmingly fast to 6.5% in October from 6.0% in September with more than half a million jobs shed in the last two months alone. This brings the unemployment rate higher than the peak seen after the 2001 recession. Payrolls fell by 240,000 in October and a strong downwardly revised 284,000 in September (from 160,000) for a total so far this year of 1.2 million jobs lost. The total number of unemployed Americans jumped to 10.1 million, the highest level in a quarter century. Expectations are that the rate of unemployment, a lagging indicator, will rise further in the coming months. Initial jobless claims increased to 516,000 in the week ending 8 November, from a revised 484,000 in the previous week.

Meanwhile, home values continued to drop in August, as shown by the 16.6% fall in the S&P Case/Shiller index. Reflecting the rising job losses and the fall in home and stock values, consumer confidence has declined to record lows as shown by the Conference Board index falling to a level of 38 in October from 61.4 in September and 112 in July of last year before the onset of the subprime mortgage crisis. Not surprisingly consumer spending has weakened. During the 3Q08, private consumption which constitutes about 70% of GDP fell by 3.1% from the previous quarter, subtracting 2.25 percentage points from growth. Retail sales which account for about 50% of private consumption were expected to drop once more in October but the rate of decline exceeded expectations. Sales dropped by 2.8%, for the fourth consecutive month, the biggest fall since records began in 1992. There is little reason to believe that the situation will improve in the near future. While sales dropped in most categories they did so over-proportionally for gasoline and car sales. Gasoline sales fell 13%, in part reflecting the sharp fall of around $1 per gallon in the price of gasoline in October. Excluding gasoline sales, total retail sales fell by a smaller 1.5%. Similarly, purchases of cars and parts dropped 5.5% following a 4.8% decline in the previous month. Excluding automobiles, total sales decreased 2.2%. In October motor vehicle sales fell below the one million mark for the first time in fifteen years.

There is widespread consensus for the need for a fiscal stimulus package. The new Administration is expected to have one in place as early as the end January. The proposed size of around $170 bn would make it as large as the first stimulus package this year which temporarily helped lift consumer spending and GDP in the second quarter. But even before the end of November there is pressure to pass an early package which may include existing proposals encompassing funds for infrastructure programs and consumer tax relief. Meanwhile the Treasury has indicated that it is shifting the focus of the second half of the $700 billion rescue plan from buying mortgage assets to consumer credit.

The Fed resorted to another interest rate cut of 50 basis points at the end of October following a similar cut at the start of the month, bringing the federal funds rate to 1% with expectation of still further cuts ahead. With inflation easing and the economy sliding into recession, the Fed has indicated its readiness to ease monetary conditions further. However, mortgage rates have not dropped in line with the fall in short-term interest rates and credit conditions have tightened further. Data from Freddie Mac show that the average rate on a 30-year mortgage stood at 6.46% towards end-October, compared with 6.26% a year ago. Moreover, the Fed's quarterly bank survey of Senior Loan Officers conducted between 2October and 16 October and covering fifty-five US banks with combined assets of $6.2 trillion, showed that about 70% of US banks had tightened standards on prime mortgage loans; 85% of banks had tightened lending standards on commercial and industrial loans to large and mid- size firms, while 50% tightened credit to consumers, both representing record percentage levels since the survey was initiated in 1991. Moreover, banks also raised the cost of all forms of loans.

U.S. trade deficit narrowed by 4.4% in September to $56.5 billion from $59.1 billion in August as oil prices fell. Excluding petroleum, the deficit widened as exports dropped the most since 2001.

Overall the US economy is estimated to grow at 1.5% this year falling to 0.3% on 2009, 0.3 percentage points lower than last month.

Japan

Bank of Japan cuts interest rates for first time in seven years as the economy slumps

The Japanese economy contracted an annualised 0.4% in the third quarter which means that Japan has entered its first technical recession since 2001. The outlook for the fourth quarter of this year and the first quarter of 2009 are for further retrenchment. Most forecasters expect a contraction in the Japanese economy in 2009. The Japanese government had already admitted that the risk of a recession was high and that the economy has been deteriorating for the fourth month as the global financial crisis' impacts on equity markets, exports and the yen become more visible. The Nikkei 225 Stock Average fell a record 24% in October alone. Since the economic growth has been so dependent on exports, the slowdown in exports since the second quarter has had negative repercussions on production, income and spending.

Latest partial data for October show exports falling 9.9% from a year earlier level in the 1-20 October period, and the trade balance turning negative during that time, according to data from the Ministry of Finance. In September, Japan's trade surplus fell sharply by 94.1% to 95.1 billion yen ($965.7 million) compared to 1.609 trillion yen ($16.34 billion) surplus posted in the same month last year. Exports rose only 1.5% to 7.368 trillion yen ($74.8 billion) as the global economy weakened and demand for cars and consumer electronics to the US and Europe fell. Imports climbed 28.8% to 7.272 trillion yen ($73.8 billion), reflecting the higher cost of commodities and energy, even though oil prices had dropped from August. In August, the trade balance had turned negative to the tune of 327.6 trillion yen. For the April-September period, Japan's trade surplus fell 85.6% percent to 801.97 billion yen ($8.14 billion). The current account surplus in September fell 49% from a year earlier to 1.5 trillion yen ($15 billion).

Consumer confidence fell to a 26-year low in October, boding ill for consumer spending. According to the latest report from the Cabinet Office, the consumer confidence index dropped to 29.4 from 31.4 in September, the lowest reading since the Japanese government began compiling the figures in 1982. Wages grew a meagre 0.1% in nominal terms in September, but in real terms they fell by 2.2%. Real wages have been falling for the last six months.

Retail sales dropped for the first time in 14 months and household spending fell for a seventh month. Machinery orders, a forward indicator of capital spending in 3-6 months ahead, fell a record 10.4% in the third quarter, as manufacturers trimmed investment plans in expectation of a fall in overseas demand. However, orders did rise in September by 5.5% which was seen as a weak rebound by the government. Separately, the number of bankruptcies rose to 1429 or by 13.4% in October. The bankruptcies touched almost all sectors surveyed and were led by the construction sector.

Although bank lending accelerated in October credit conditions have tightened. Firms, especially small ones, are facing difficulties in securing finance which may indicate that rising trend of bankruptcies may not be reversed soon. Moreover, the Economy Watchers index, a small business sentiment index dropped to record lows. It fell to 22.6 in October, the lowest levels since the Cabinet Office started the survey in August 2001.

In response to the crisis, the Bank of Japan cut its overnight call rate for the first time in seven years to 0.3% from 0.5% on October 31 in an attempt to help the ailing economy. The BoJ also cut its growth forecast for the year ending March to 0.1% from 1.2% predicted in July.

Overall, the Japanese economy is estimated to grow at 0.5% this year and forecast to contract at a pace of -0.2% in 2009, around 0.5pp lower than last month.

Euro-zone

Euro-zone economy enters into first recession since the adoption of the euro in 1999

Similar to the other OECD regions, the economic picture in the Euro-zone is bleak. According to flash estimates by Eurostat, third quarter real GDP in the 15-euro nations contracted 0.2% (or 0.8% on an annualised basis) following a similar drop in Q208, implying the region had slipped in to a technical recession. In the four largest economies in the Euro-zone, the German and Italian real GDP contracted by 0.5% o.k., while Spain GDP fell by 0.2% q-o-q and France expanded at a meager 0.1% q-o-q during the third quarter. The contraction is expected to continue during the last quart of 2008. Several governments are discussing fiscal stimulus programs to prevent a deeper recession. However, European finance ministers in early November ruled out a joint stimulus package at but opted instead for coordinating national policies to limit the fallout from the economic recession.

However, the factors that had slowed Euro-zone countries' economies earlier such as the strong euro, inflation and tight monetary policy are easing but these developments may not be sufficient to prevent a further contraction given the overall slowdown in global demand. In early November, the European Commission revised its Euro-zone growth forecast down to almost a standstill in 2009 predicting 0.1% growth following an estimated 1.2% expansion this year. The downward revisions are even less than other forecasters such as the IMF or the OECD which predict negative growth next year for the 15- country group.

The weakness in the Euro-zone economy is exhibited by a drop of consumer and business confidence to 15-yer lows while both the services and manufacturing sectors contracted at record pace. October saw the worst month on record for the PMI services index which plunged to 41.1 from 45 in September, the fifth month in a row below the threshold 50 mark separating expansion from contraction. Manufacturing also recorded its largest ever monthly fall on its way to a record low. In September 2008 compared with August 2008, seasonally adjusted industrial production1 fell by 1.6% in the euro area, or 2.4% from year ago level. In August production had grown by 0.8%.

German industrial production fell for the first time in five years in September, while in Spain the contraction is in its fifth month. German manufacturing orders fell by a record 8% in September and it is therefore expected that industrial production may fall further in coming months. Being the largest world exporter, Germany is vulnerable to the global slowdown. Around 40% of Germany's exports go to the euro-region... On November 12, the government's council of economic advisors called on the German government to expand the 50 billion euro stimulus package agreed upon the week earlier. Surprisingly The ZEW index of investor and analyst expectations remained negative for a 16th month in November, but it increased to minus 53.5 from minus 63 in October. The index had reached a record low of minus 63.9 in July. However, the IFO index for business climate for industry and trade declined in October, continuing its downward development. While the current business situation was assessed as nearly unchanged the outlook for the coming six months was less optimistic as German firms anticipate declining business activity.

In the Euro-area the seasonally-adjusted unemployment rate stood at 7.5% in September 2008, unchanged from August. However it was 0.2% higher than the 7.3% in September 2007 and representing around half a million more unemployed persons. Eurostat estimates that 11.691 million men and women in the euro area were unemployed in September 2008.

Producer price inflation eased to 7.9% in September from a year earlier after increasing 8.5% in August, while consumer price inflation slowed further to 3.2% in October compared to a peak of 4% in July. The slowing pace of inflation allowed the European Central Bank (ECB), as predicted, to reduce its benchmark refinancing rate once again by 50 basis points on 6 November to 3.25%, the second cut in so may months, following the coordinated cut on October 8 which included the Fed and the bank of England. Further easing is probable as hinted by the ECB and rates may fall as low as 2% by mid-2009. However, the ECB is still worried about a wage price spiral if pay increases under negotiation are not moderate.

Overall our forecast for the Euro-zone is for growth of 1.2% this year falling to 0.2% in 2009, a downward revision of 0.4pp from last month.

Former Soviet Union

The Russian central bank allows the rouble to depreciate

The Russian government predicts that GDP growth in Russia will not be less than 7% in 2008. Russia is facing a financial crisis which is expected to last at least another year and the government will have to dip into reserves to plug gaps in next year's budget if oil prices remain low. The Russian central bank allowed the rouble to depreciate one percent below its previously defended threshold of 30.41 against a euro-dollar basket. In a bid to discourage capital flight. the central bank raised key interest rates by one percentage point. Moscow has pledged a wide-ranging rescue package worth around $200 billion for the economy and markets. The package includes help for corporations struggling to refinance foreign debt during the credit crunch.

The Kazakh State Statistics Agency reported that the Kazakh’s industrial sector expanded by 2.1% y-o-y in October. Thus, industrial growth decelerated again, after registering 3.0% y-o-y in September, 1.0% y-o-y in August and having remained stable in annual comparison in July. The key industrial sector of mining and quarrying put on the best performance, expanding by 7.0% y-o-y. In particular, crude oil output increased by 11.7% y-o-y, while coal production gained 17.3% y-o-y and output of gas concentrate rose by 9.6% y-o-y.

Following the spread of the global financial market turmoil to Ukraine in October 2008, the economy is now expected to contract in 2009 and recover only slowly in 2010. The currency will weaken sharply in 2009, and the current-account deficit is now forecast to narrow on the basis of lower import demand.

Developing Countries

China unveiled a fiscal stimulus package worth yuan 4 tm

In November, China unveiled a fiscal-stimulus package worth yuan 4 trn (US$586bn). Around 1/3-1/4 of the funds are new, previously unannounced spending while much of it is a compilation of initiatives already announced or items that were already scheduled in the current five-year plan. Details of new spending have focused on the infrastructure investment and include: 120b Yuan ($18b) new spending in the fourth quarter an extra 200b Yuan for earthquake reconstruction in 2009 (up from previously planned 1T Yuan). The total 1.2T Yuan may be included in the 4T Yuan headline figure. It includes extra 500b Yuan on the railroads VAT reform. This might reduce revenues by 100-120b Yuan. As part of the fiscal stimulus the government confirmed that quotas on new bank credit had been lifted and that banks would be encouraged to lend to small companies, rural areas and industries that were consolidating or investing in technology. The package should also cover undisclosed amounts to support grain purchases to boost prices for rural farmers, undisclosed additional social spending (transfers to social security fund, health care transfers). The net result of the new stimulus will be a further ramp up of infrastructure investment perhaps rising as high as 38% of GDP from the 6-7% of recent years, contributing 2.5 ppt to GDP growth in 2009. The Chinese government suggests that the new federal spending of 120b Yuan plus local government and private sector spending could take the aggregate total to 400b in the fourth quarter – or over 5% of fourth-quarter 2007 GDP. The timing of the Chinese package is influenced by domestic demands, as macro indicators have worsened, despite still relatively strong export growth. Chinese retail sales, albeit an imperfect measure of private consumption, are also still robust, growing 22% in October stripping out inflation. Yet especially for exports, worse news seems likely ahead. Reports suggest that many factories continue to close and China’s infrastructure demands might therefore put a floor on falling commodity prices, particularly as the credit crunch and falling demand may depress investment.

The Reserve Bank of India (RBI) took emergency action at the weekend to pump liquidity into the local banking system amid mounting concerns that the global financial crisis will cut significantly India's economic growth. The RBI cut the repo rate 50 basis points to 7.5%, lowering the key short-term interest rate for the second time in two weeks. It also reduced the cash reserve ratio, the amount of money banks have to hold with the central bank, 100 basis points to 5.5%, releasing about Rs 400 bn ($8.1 bn) into the banking system. The central bank is predicting that in the current fiscal year growth will be between 7.5% and 8%.

OPEC Member Countries

Saudi Arabia's foreign assets reach $878 billion

According to the Saudi Arabian Monetary Agency (SAMA), Saudi Arabia's foreign assets could more than double to nearly $878 billion (Dh 3.22 trillion) at the end of 2010 because of massive fiscal surpluses spawned by a surge in its petrodollar income. Apart from rebuilding its foreign assets, Saudi Arabia has used its oil windfall over the past few years to slash its public debt that surpassed its GDP in the late 1990s. By the end of 2007, the debt was as low as SAR 267 bn, nearly 19% of the 2007 GDP. It is expected to fall to 12-14% by the end of this year, according to Saudi and IMF forecasts.

Kuwait will see slower economic growth in 2009 due to falling oil prices and a weakening global economy as the country makes slow progress with diversifying its economy away from energy. Despite the fall in oil prices, government spending would remain expansionary as Kuwait with its large oil and foreign reserves was able to support its population and plans to upgrade its infrastructure and oil sector.

Venezuela's 2009 budget based on 6% economic growth and oil price $60/b

The Venezuelan government presented a national budget proposal for 2009 that will increase social spending and is based on predictions of 6% economic growth, a stable national currency, and oil exports at a price of $60/b. The total budget for 2009 is 167.5 billion bolivars ($77.9 billion), which represents a 22% nominal increase over 2008 and is 23.7% of the current GDP. Oil revenues will make up 46.5% of total government revenues, or 77.9 billion bolivars ($36.2 billion), and non-oil revenues will amount to 77.2 billion bolivars ($35.9 billion) in 2009. Inflation is estimated to be 15% next year, and this "implies a vigorous effort in the application of anti-inflationary measures," particularly in the agricultural sector. The 2009 budget emphasizes poverty reduction by increasing social spending to encompass nearly half the national budget. This represents a 25% nominal increase over 2008, when 45% of the budget went toward social spending.

Oil prices, the US dollar and inflation

US dollar rise versus euro and pound accelerates in October

Continuing the trend of the three previous months, the US dollar moved from strength to strength, appreciating against most of the major currencies in the modified Geneva I + US dollar basket in October with the exception of the Japanese yen. The dollar rose 7.4% versus the euro, and gained 8.5% against the pound sterling, 2.3% versus the Swiss franc, but fell 6.0% against the yen. Vis-à-vis the modified Geneva I + US dollar basket, the dollar posted a gain of 3.14% compared to 1.93% rise in September. The US currency averaged $1.3305/€ in October from $1.4366/€ in September.

The US dollar's recovery, which started in mid-July, continued through October at an even faster pace than in the previous two months. By the last week of October the dollar had risen to $1.25/€, levels last seen in October 2006 and about 22% above the record-low on July 15, 2008. The continued deleveraging and unwinding of carry trade has added to the strength of the yen which is now in the range of 97-98¥/$ as well weakening the euro. With the economic situation deteriorating further in all OECD regions, currency movements will remain volatile and continue to reflect the perceptions of relative weakness as well as continued deleveraging of assets globally.

In October, the OPEC Reference Basket dropped by $27.7/b or 28.6% to $69.16/b from $96.85/b in September. In real terms (base June 2001=100), after accounting for inflation and currency fluctuations, the Basket price fell $16.2/b or 26.5% to $44.9/b from $61.1/b. The dollar appreciated by 3.14%, as measured against the import-weighted modified Geneva I+US dollar basket, while inflation eroded the value of the barrel by over 0.2%.*

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

World Oil Demand

World oil demand expected to grow by 0.5 mb/d in 2009 to 86.68 mb/d

World oil demand in 2009

Oil demand growth will be boosted mainly by non-OECD countries, particularly the Middle East, Asia, and China. Deteriorating economies in OECD countries are estimated to yield in declining oil demand which is forecast to pull total world oil demand growth down to less than 0.6 mb/d in 2009. Hence, **world oil demand in 2009 was revised down by 0.3 mb/d to show growth of 0.5 mb/d y-o-y.**

World oil demand in 2008 to grow by 0.29 mb/d to 86.19 mb/d

World oil demand in 2008

Economic turmoil continues to undermine oil demand growth, especially in the OECD counties. Led by losses in the US, OECD oil demand showed a major drop of 1.7 mb/d y-o-y in October. Non-OECD oil demand growth stood at 1.2 mb/d, resulting in a decline of total world oil demand of around 0.5 mb/d.

Weather and the fall in prices might to a certain degree help fourth-quarter oil demand but demand is not expected to overcome the major decline resulting from the economic downturn. Vehicle sales reported a 30% decline in October. Given the world economic turmoil, fourth-quarter oil demand is forecast to show minor growth of only 0.4 mb/d y-o-y to average 87.4 mb/d. In addition to the strong decline in transport fuel, petrochemical industry oil consumption is showing a strong decline as well.

Due to the declining oil demand in OECD, **world oil demand in 2008 was revised down by 0.26 mb/d and is now expected to grow by 0.29 mb/d to average 86.2 mb/d.** Should the weather become warmer, then further downward revisions might be possible.

Table 5: World oil demand forecast for 2008, mb/d

							Change 2008/07	
	2007	1Q08	2Q08	3Q08	4Q08	2008	Volume	%
North America	25.53	24.84	24.54	24.02	24.69	24.52	-1.01	-3.97
Western Europe	15.30	15.20	14.88	15.34	15.64	15.27	-0.04	-0.26
OECD Pacific	8.35	8.87	7.82	7.53	8.69	8.22	-0.12	-1.46
Total OECD	**49.18**	**48.90**	**47.24**	**46.89**	**49.02**	**48.01**	**-1.17**	**-2.39**
Other Asia	9.12	9.32	9.49	9.09	9.49	9.35	0.23	2.54
Latin America	5.51	5.54	5.75	5.88	5.78	5.74	0.23	4.15
Middle East	6.50	6.74	6.81	7.06	6.75	6.84	0.34	5.28
Africa	3.09	3.19	3.11	3.12	3.21	3.15	0.06	2.05
Total DCs	**24.22**	**24.80**	**25.16**	**25.15**	**25.23**	**25.08**	**0.87**	**3.58**
FSU	3.98	3.97	3.89	4.22	4.44	4.13	0.15	3.76
Other Europe	0.93	1.03	0.96	0.92	0.92	0.96	0.03	2.89
China	7.59	7.97	8.17	8.10	7.78	8.01	0.42	5.52
Total "Other Regions"	**12.50**	**12.98**	**13.02**	**13.25**	**13.14**	**13.10**	**0.60**	**4.76**
Total world	**85.90**	**86.68**	**85.42**	**85.28**	**87.39**	**86.19**	**0.29**	**0.33**
Previous estimate	85.90	86.67	85.42	85.71	88.01	86.45	0.55	0.64
Revision	0.00	0.01	0.00	-0.43	-0.63	-0.26	-0.26	-0.31

Totals may not add due to independent rounding.

Table 6: First and second quarter world oil demand comparison for 2008, mb/d

			Change 2008/07				Change 2008/07	
	1Q07	1Q08	Volume	%	2Q07	2Q08	Volume	%
North America	25.68	24.84	-0.84	-3.27	25.40	24.54	-0.86	-3.40
Western Europe	15.23	15.20	-0.03	-0.22	14.95	14.88	-0.07	-0.46
OECD Pacific	8.91	8.87	-0.04	-0.49	7.87	7.82	-0.05	-0.65
Total OECD	**49.82**	**48.90**	**-0.92**	**-1.84**	**48.22**	**47.24**	**-0.98**	**-2.04**
Other Asia	8.98	9.32	0.34	3.80	9.24	9.49	0.26	2.79
Latin America	5.30	5.54	0.24	4.54	5.48	5.75	0.27	4.92
Middle East	6.45	6.74	0.29	4.49	6.44	6.81	0.37	5.69
Africa	3.11	3.19	0.08	2.70	3.05	3.11	0.06	1.80
Total DCs	**23.84**	**24.80**	**0.96**	**4.01**	**24.21**	**25.16**	**0.95**	**3.92**
FSU	3.87	3.97	0.10	2.70	3.71	3.89	0.18	4.92
Other Europe	1.01	1.03	0.03	2.53	0.92	0.96	0.04	4.47
China	7.48	7.97	0.50	6.63	7.77	8.17	0.40	5.14
Total "Other Regions"	12.35	12.98	**0.63**	**5.06**	12.39	13.02	**0.62**	**5.03**
Total world	**86.02**	**86.68**	**0.66**	**0.77**	**84.83**	**85.42**	**0.59**	**0.69**

Totals may not add due to independent rounding.

Table 7: Third and fourth quarter world oil demand comparison for 2008, mb/d

			Change 2008/07				Change 2008/07	
	3Q07	3Q08	Volume	%	4Q07	4Q08	Volume	%
North America	25.57	24.02	-1.55	-6.05	25.49	24.69	-0.80	-3.14
Western Europe	15.41	15.34	-0.07	-0.45	15.62	15.64	0.02	0.10
OECD Pacific	7.89	7.53	-0.36	-4.55	8.72	8.69	-0.03	-0.34
Total OECD	**48.86**	**46.89**	**-1.98**	**-4.04**	**49.83**	**49.02**	**-0.82**	**-1.64**
Other Asia	8.94	9.09	0.15	1.71	9.31	9.49	0.18	1.91
Latin America	5.65	5.88	0.23	4.07	5.61	5.78	0.18	3.12
Middle East	6.62	7.06	0.44	6.59	6.47	6.75	0.28	4.31
Africa	3.06	3.12	0.06	1.93	3.15	3.21	0.06	1.78
Total DCs	**24.27**	**25.15**	**0.88**	**3.62**	**24.54**	**25.23**	**0.69**	**2.80**
FSU	4.00	4.22	0.22	5.56	4.35	4.44	0.09	2.07
Other Europe	0.90	0.92	0.02	2.35	0.90	0.92	0.02	2.23
China	7.72	8.10	0.38	4.93	7.38	7.78	0.40	5.42
Total "Other Regions"	12.62	13.25	**0.62**	**4.95**	12.63	13.14	**0.51**	**4.04**
Total world	**85.75**	**85.28**	**-0.47**	**-0.55**	**87.00**	**87.39**	**0.38**	**0.44**

Totals may not add due to independent rounding.

Alternative Fuels

Low oil prices are putting pressure on the high-cost biofuel industry. Not only has the biofuel industry lived on governmental subsidies but it has pushed food prices higher. In order to ease the pressure on food prices, some European countries are banning certain food products from the industry feedstock list.

Hence, Germany altered its mandate of biodiesel blend which was set to reach 6.25% next year. Furthermore, the country is planning to increase taxes on biodiesel in the near future. This move is not limited to Germany only; it is spreading to other European countries such as the UK.

OECD North America

North America revised down to see a decline of 1.0 mb/d in 2008

The turmoil in the US economy has not only led to higher unemployment and tightening credit, but also a decline in oil demand of more than 1.0 mb/d year-to-date. Furthermore, gasoline declined by 3.1%, while kerosene jet fuel fell by 5.3% as a result of the slowing aviation industry. US oil demand is expected to decline by 1.05 mb/d in 2008. High oil prices affected US oil demand in the first half of this year; however, in the second half, the deteriorating economy is the main reason behind the drastic slide in oil demand. The anticipated upcoming cold winter would support heating and fuel consumption. However, the expected slowdown in transport and industrial fuel use resulting from the current economic situation will more than offset demand growth for winter products.

Similar to last month, Mexican gasoline demand grew adding 55 tb/d y-o-y to the country's total oil demand in September. During the summer, Mexico's transport fuel demand was not affected by high oil prices as in the US but jumped by 5.2% year-to-date. Hence, in the first three quarters, Mexico's oil demand was pushed up by transport fuel to show growth of 2% to average 1.85 mb/d.

Domestic sales of refined petroleum products in Mexico (tb/d)

	Jan-Sep 2008	Jan-Sep 2007	Change (kb/d)	Change (%)
LPG	287	295	-8	-2.8
Gasoline	788	749	39	5.2
Jet Fuel	68	69	-1	-1.1
Diesel Oil	384	354	29	8.3
Fuel Oil	241	268	-27	-10.1
Other Products	76	72	5	6.3
Total Products	**1,843**	**1,807**	**36**	**2.0**

In contrast, oil demand in Canada was dragged down by the 0.7% y-o-y decline in gasoline consumption in the first three quarters. Given the effect of the winter, Canadian oil demand is not expected to show a decline but will end up the year flat.

Hence, as **a result of declining US oil demand, North America's oil demand growth was revised down by another 0.2 mb/d in 2008 to show a total decline of 1.0 mb/d y-o-y in 2008.**

OECD Europe

OECD Europe to fall by 40 tb/d

Without any doubt, the world financial crisis has affected Europe, resulting in considerable decline in oil demand. German consumption, the largest in Europe, was boosted by diesel usage which grew by 11% in the first three quarters of this year. Diesel demand is increasing as most of vehicles sold within Europe operate on diesel instead of gasoline. This move has cut into gasoline consumption, which is down 5.6% over the same period. Although the industrial use of LPG is heading higher, fuel oil usage declined by 8.3% y-o-y in the first three quarters. The behaviour of German oil demand does not apply to the other "Big Four". The UK petroleum product inland consumption declined by almost 1% in the first three quarters of this year. The major loss came from gasoline usage which dipped by 6.1%. Italy showed the same consumption pattern where gasoline demand declined by 8% in three quarters leading to a total decline in the country's oil usage of 2.8%. **Although winter might require more oil consumption in the fourth quarter, OECD Europe oil demand in the whole year is forecast to decline by 0.04 mb/d y-o-y to average 15.3 mb/d.**

Table 8: World oil demand forecast for 2009, mb/d

	2008	1Q09	2Q09	3Q09	4Q09	2009	Change 2009/08 Volume	Change 2009/08 %
North America	24.52	24.41	24.04	23.57	24.39	24.10	-0.42	-1.71
Western Europe	15.27	15.10	14.71	15.24	15.59	15.16	-0.10	-0.69
OECD Pacific	8.22	8.80	7.75	7.46	8.66	8.16	-0.06	-0.73
Total OECD	**48.01**	**48.30**	**46.50**	**46.27**	**48.64**	**47.42**	**-0.58**	**-1.22**
Other Asia	9.35	9.45	9.63	9.24	9.63	9.49	0.14	1.48
Latin America	5.74	5.66	5.88	6.02	5.92	5.87	0.13	2.29
Middle East	6.84	7.02	7.09	7.34	7.03	7.12	0.28	4.13
Africa	3.15	3.25	3.18	3.19	3.26	3.22	0.07	2.07
Total DCs	**25.08**	**25.39**	**25.77**	**25.79**	**25.84**	**25.70**	**0.62**	**2.46**
FSU	4.13	4.02	3.93	4.29	4.51	4.19	0.06	1.39
Other Europe	0.96	1.05	0.98	0.94	0.94	0.98	0.02	1.99
China	8.01	8.35	8.55	8.48	8.16	8.39	0.38	4.76
Total "Other Regions"	**13.10**	**13.43**	**13.46**	**13.71**	**13.61**	**13.55**	**0.46**	**3.50**
Total world	**86.19**	**87.12**	**85.74**	**85.77**	**88.09**	**86.68**	**0.49**	**0.57**
Previous estimate	**86.45**	**87.51**	**86.07**	**86.37**	**88.88**	**87.21**	**0.76**	**0.87**
Revision	**-0.26**	**-0.38**	**-0.33**	**-0.61**	**-0.79**	**-0.53**	**-0.27**	**-0.31**

Totals may not add due to independent rounding.

Table 9: First and second quarter world oil demand comparison for 2009, mb/d

	1Q08	1Q09	Change 2009/08 Volume	Change 2009/08 %	2Q08	2Q09	Change 2009/08 Volume	Change 2009/08 %
North America	24.84	24.41	-0.43	-1.73	24.54	24.04	-0.50	-2.04
Western Europe	15.20	15.10	-0.10	-0.66	14.88	14.71	-0.17	-1.14
OECD Pacific	8.87	8.80	-0.07	-0.79	7.82	7.75	-0.07	-0.90
Total OECD	**48.90**	**48.30**	**-0.60**	**-1.23**	**47.24**	**46.50**	**-0.74**	**-1.57**
Other Asia	9.32	9.45	0.13	1.39	9.49	9.63	0.14	1.42
Latin America	5.54	5.66	0.12	2.17	5.75	5.88	0.13	2.17
Middle East	6.74	7.02	0.28	4.15	6.81	7.09	0.29	4.19
Africa	3.19	3.25	0.06	2.04	3.11	3.18	0.07	2.25
Total DCs	**24.80**	**25.39**	**0.59**	**2.40**	**25.16**	**25.77**	**0.61**	**2.44**
FSU	3.97	4.02	0.05	1.26	3.89	3.93	0.04	1.16
Other Europe	1.03	1.05	0.02	1.82	0.96	0.98	0.02	1.95
China	7.97	8.35	0.38	4.77	8.17	8.55	0.39	4.71
Total "Other Regions"	**12.98**	**13.43**	**0.45**	**3.46**	**13.02**	**13.46**	**0.45**	**3.45**
Total world	**86.68**	**87.12**	**0.44**	**0.51**	**85.42**	**85.74**	**0.32**	**0.38**

Totals may not add due to independent rounding.

Table 10: Third and fourth quarter world oil demand comparison for 2009, mb/d

	3Q08	3Q09	Change 2009/08 Volume	Change 2009/08 %	4Q08	4Q09	Change 2009/08 Volume	Change 2009/08 %
North America	24.02	23.57	-0.45	-1.87	24.69	24.39	-0.30	-1.21
Western Europe	15.34	15.24	-0.10	-0.65	15.64	15.59	-0.05	-0.32
OECD Pacific	7.53	7.46	-0.07	-0.93	8.69	8.66	-0.03	-0.35
Total OECD	**46.89**	**46.27**	**-0.62**	**-1.32**	**49.02**	**48.64**	**-0.38**	**-0.78**
Other Asia	9.09	9.24	0.15	1.65	9.49	9.63	0.14	1.48
Latin America	5.88	6.02	0.14	2.38	5.78	5.92	0.14	2.42
Middle East	7.06	7.34	0.29	4.04	6.75	7.03	0.28	4.13
Africa	3.12	3.19	0.07	2.25	3.21	3.26	0.06	1.75
Total DCs	**25.15**	**25.79**	**0.64**	**2.57**	**25.23**	**25.84**	**0.61**	**2.44**
FSU	4.22	4.29	0.07	1.54	4.44	4.51	0.07	1.57
Other Europe	0.92	0.94	0.02	2.03	0.92	0.94	0.02	2.18
China	8.10	8.48	0.38	4.69	7.78	8.16	0.38	4.88
Total "Other Regions"	**13.25**	**13.71**	**0.46**	**3.50**	**13.14**	**13.61**	**0.47**	**3.58**
Total world	**85.28**	**85.77**	**0.49**	**0.57**	**87.39**	**88.09**	**0.70**	**0.81**

Totals may not add due to independent rounding.

OECD Pacific

OECD Pacific revised down to show a decline of 120 tb/d

Despite gasoline prices falling to eight-month lows, Japan's transport fuel consumption continues to show a drastic decline. The slide in oil demand in Japan is a result of the economic slowdown in the Pacific. Japan's domestic petroleum product sales plunged by 13% or 0.5 mb/d y-o-y in September. The main drop was in transport and industrial fuel. This trend of Japan's oil demand applied to all of the OECD Pacific. **The region's oil demand forecast was revised down by 0.06 to show a total decline of 120 tb/d in 2008.**

Table 11: Japanese domestic sales, tb/d

	Sep 08	Change from Sep 07	Change from Sep 07 %
Gasoline	1,000	-96	-8.8
Naphtha	727	-97	-11.8
Jet Fuel	98	-6	-5.4
Kerosene	140	-85	-37.8
Gas Oil	610	-31	-4.9
Other Products	577	-110	-16.0
Direct Use of Crude	164	-67	-28.8
Total	**3,316**	**-492**	**-12.9**

Source: Ministry of Economy and Trade in Japan (METI).

Developing Countries

Developing Countries to grow by 0.9 mb/d this year

The stable economy kept oil demand in India healthy as expected. Strong usage of diesel by transport and industrial sectors added another 150 tb/d y-o-y to total oil use in September. Gasoline showed strong growth as well, reaching 22 tb/d to average 251 tb/d y-o-y in September. Total oil demand growth in September reached 0.2 mb/d y-o-y to average 2.87 mb/d. **In the first three quarters, India's oil demand grew by 5.3% or 144 tb/d y-o-y to average 2.88 mb/d.** It is anticipated that growth will be within the forecast range of 145 tb/d y-o-y in 2008.

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

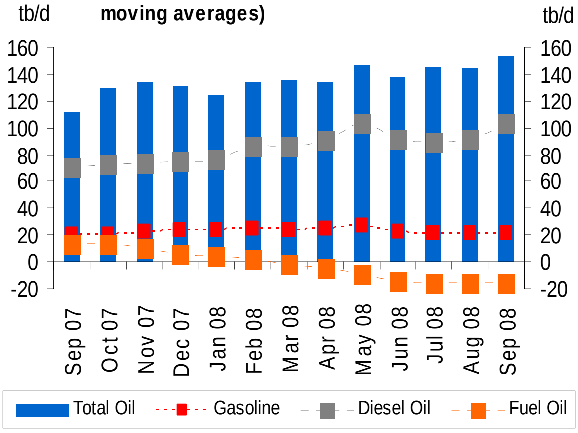
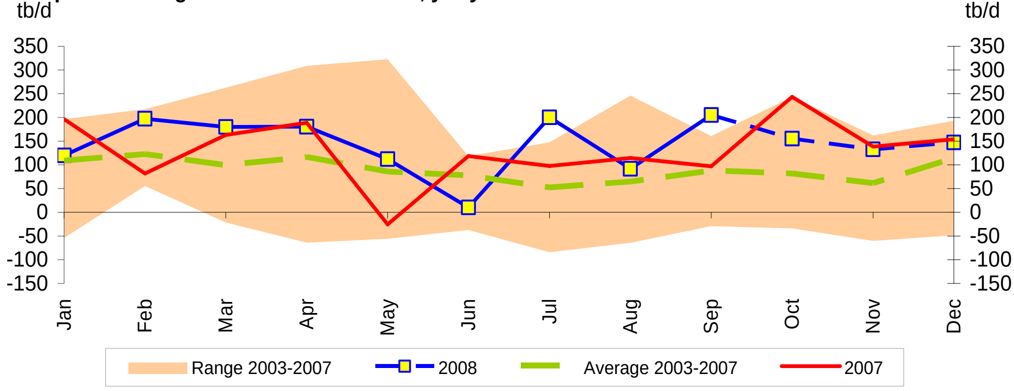


Table 12: Indian oil demand by main products, tb/d

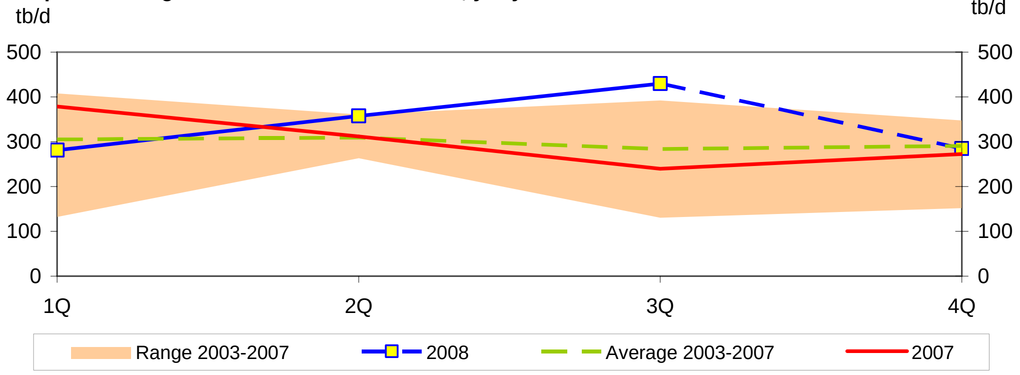
	Sep 08	Aug 08	Jan 08 - Sep 08	Difference to Jan 07 - Sep 07	%
LPG	384	349	374	18	5.1
Motor Gasoline	251	234	252	19	8.3
Jet Kero	307	271	296	7	2.3
Gas Diesel Oil	1,035	904	1,073	108	11.2
Residual Fuel Oil	328	335	318	-17	-5.2
Other Products	568	525	571	10	1.8
Total Oil Demand	**2,874**	**2,618**	**2,883**	**144**	**5.3**

Sources: Direct Communication, Indian Ministry of Petroleum, Indianpetro, JODI plus OPEC Secretariat's estimates.

Graph 16: Changes in Indian oil demand, y-o-y

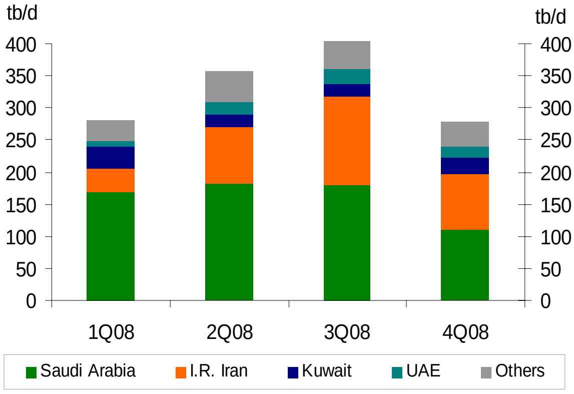


Graph 17: changes in Middle East oil demand, y-o-y



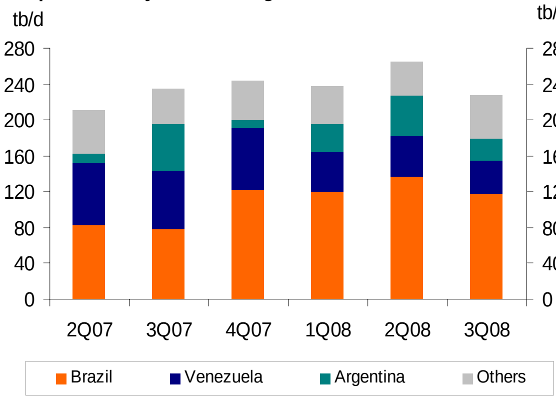
The easing in crude prices relieved some Asian countries from high costs of fuel subsidy bills. Some countries are considering completely abolishing subsidy on certain products and keeping it on products that are widely used for cooking within Asia such as kerosene. Other Asia oil demand will stay healthy as expected to achieve growth of 0.23 mb/d to average 9.35 mb/d.

Graph 18: Yearly oil demand growth in the Middle East



As a result of the strong oil demand in Other Asia, Latin America, the Middle East and Africa, **Developing Countries oil demand growth is forecast to reach 0.9 mb/d in 2008 y-o-y to average 25 mb/d.**

Graph 19: Yearly oil demand growth in Latin America



Latin America's oil demand is on the rise. Oil demand in Brazil, Venezuela and Argentina is showing healthy growth as expected. Economic activities along with controlled prices were the factors behind this strong appetite for energy. Latin America's oil demand growth is forecast to reach 0.23 mb/d y-o-y in 2008 to average 5.7 mb/d.

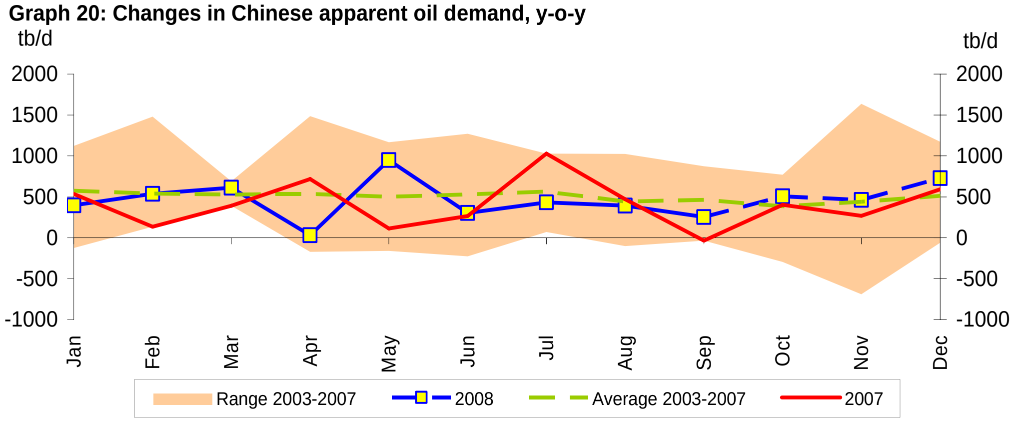
Other Regions

China growth forecast at 0.42 mb/d

A few factors affected China's oil demand in the third quarter, such as the halt in economic activities during the summer Olympics, traffic restrictions, a 5% decline in power generation growth from 16%, and the usage of the country's strategic reserve. Hence, China's apparent oil demand growth was revised down by 100 tb/d. **China's oil demand growth is forecast at 0.42 mb/d y-o-y to average 8 mb/d.**

During the month of September, Russia's apparent oil demand inched up by around 5% y-o-y. This strong growth was supported by an active economy within the region. Hence, FSU's oil demand growth was revised up by 0.13 mb/d y-o-y in the third quarter. For the whole year of 2008, FSU's oil demand growth is forecast to reach 0.15 mb/d y-o-y to average 4.1 mb/d.

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



World Oil Supply

Following further downward revisions non-OPEC supply expected to increase by 0.22 mb/d

Non-OPEC

Forecast for 2008

Non-OPEC supply is expected to average 49.65 mb/d in 2008, an increase of 0.22 mb/d over 2007 and a downward revision of 92 tb/d from the previous assessment. Downward revisions were carried out for supply from the USA, Norway, Australia, Vietnam, Russia, Kazakhstan, and Azerbaijan. Minor upward revisions were made to supply from Argentina and Oman but were not sufficient to offset the downward revisions made to the supply forecasts of other countries. The majority of the downward revisions took place in the third and fourth quarters. Upward revisions were carried out for the first and second quarters to account for recent updates to actual production figures. The bulk of the downward revisions came from the FSU region with Azerbaijan standing on top of the revision list. On a quarterly basis, non-OPEC supply is seen at 49.69 mb/d, 49.75 mb/d, 48.72 mb/d and 50.42 mb/d respectively.

Table 13: Non-OPEC oil supply in 2008, mb/d

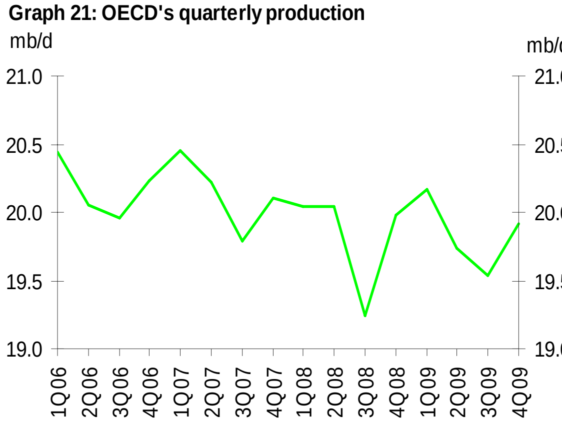
	2007	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07
North America	14.30	14.25	14.38	13.74	14.27	14.16	-0.14
Western Europe	5.23	5.21	5.03	4.86	4.92	5.00	-0.23
OECD Pacific	0.60	0.58	0.63	0.64	0.79	0.66	0.06
Total OECD	**20.14**	**20.04**	**20.04**	**19.25**	**19.98**	**19.83**	**-0.31**
Other Asia	2.72	2.76	2.67	2.68	2.91	2.75	0.03
Latin America	3.88	4.02	4.06	4.11	4.17	4.09	0.21
Middle East	1.66	1.64	1.65	1.64	1.66	1.65	-0.01
Africa	2.67	2.71	2.71	2.71	2.75	2.72	0.05
Total DCs	**10.93**	**11.13**	**11.10**	**11.15**	**11.50**	**11.22**	**0.29**
FSU	12.52	12.62	12.66	12.40	12.95	12.66	0.14
Other Europe	0.15	0.14	0.14	0.14	0.14	0.14	0.00
China	3.77	3.81	3.86	3.84	3.91	3.85	0.09
Total "Other regions"	**16.44**	**16.57**	**16.66**	**16.38**	**17.00**	**16.65**	**0.22**
Total Non-OPEC production	**47.50**	**47.74**	**47.80**	**46.77**	**48.47**	**47.70**	**0.19**
Processing gains	1.92	1.95	1.95	1.95	1.95	1.95	0.03
Total Non-OPEC supply	**49.43**	**49.69**	**49.75**	**48.72**	**50.42**	**49.65**	**0.22**
Previous estimate	49.43	49.63	49.64	48.93	50.76	49.74	0.31
Revision	0.00	0.06	0.11	-0.20	-0.33	-0.09	-0.09

OECD

Total OECD supply to decline by 0.31 mb/d

Total production from OECD countries is forecast to average 19.83 mb/d, indicating a drop of 310 tb/d from 2007, representing a downward revision of 48 tb/d from last month's figure. OECD production level for the first and second quarters was revised up by 33 tb/d and 47 tb/d respectively, supported by updated production figures from North America and Western Europe. Figures for the third and fourth quarters were revised down to reflect adjustments to actual figures from North America and Western Europe as well as expected delays in project ramp-ups in OECD Pacific and North America. On a quarterly basis, OECD oil supply is estimated to average 20.04 mb/d, 20.04 mb/d, 19.25 mb/d and 19.98 mb/d respectively. The upward revisions to the first half of the year offset some of the downward revisions in the second half, with fourth-quarter downward revisions — mainly for North America — experiencing the largest quarterly revisions in 2008, relative to last month's figures.

Graph 21: OECD's quarterly production



USA

US supply forecast revised down by 23 tb/d

Oil supply from the **USA** is expected to increase by around 50 tb/d over last year's total to average 7.54 mb/d in 2008, indicating a downward revision of 23 tb/d from the previous month's assessment. The slow recovery in hurricane-related shut-downs in the Gulf of Mexico is one of the main reasons for the downward revision. However, it is expected that this volume will return in the coming weeks while a very small quantity is reported to have been regarded as permanently lost. Additionally, project start-ups later than previously anticipated further undermined US supply. The first oil was reported to have started flowing from the Blind Faith project in November, which is later than our previous expectation. On the other hand, the ramp-up of the Thunder Horse project in addition to the increased production from Alaska following maintenance partially offset the downward revision. On a quarterly basis, USA supply stands at 7.64 mb/d, 7.75 mb/d, 7.22 mb/d and 7.57 mb/d respectively. US third-quarter supply experienced an upward revision from last month's assessment mainly on the back of adjustments to available actual production figures. The anticipated increase in the fourth quarter comprises a mix of production returning to normal after the hurricane season, project ramp-ups and the end of maintenance. Preliminary data for October support the foreseen increase in the fourth quarter as supply stood at 7.18 mb/d, a gain of around 730 tb/d from September, however, the possibility of further downward revisions remains depending on operators' performance.

Canada and Mexico

Canadian oil supply is forecast to average 3.40 mb/d in 2008 indicating growth of around 90 tb/d over the year before but unchanged from the previous month's figure. Despite the steady state of annual growth and average production in the forecast, quarterly Canadian oil supply has been altered in all quarters. Figures for the first half of the year were revised up on the back of new data for actual production, while the second half was revised down due to actual data for the third quarter and deferred project ramp-ups in the fourth quarter. On a quarterly basis, production stands at 3.33 mb/d, 3.45 mb/d, 3.39 mb/d and 3.45 mb/d respectively. According to preliminary data, Canadian oil supply stood at 3.41 mb/d in October.

Oil supply from **Mexico in 2008** is expected to decline by 280 tb/d compared to the previous year to average 3.21 mb/d, unchanged from last month's assessment. While the volume from the KMZ field is increasing, production from the giant Cantarell field is declining at a faster rate. The volume lost due to production shutdowns — as exports to the US were lower because of hurricane-related refinery shutdowns — is reported to have returned, partially affecting the October production figure.

Western Europe

OECD Western Europe oil supply is anticipated to average 5.0 mb/d in 2008, indicating a decline of 230 tb/d over 2007 and a minor downward revision of 13 tb/d compared to last month's assessment. The downward revision was due to the forecast for Norwegian supply.

Norway

Supply forecast for Norway slightly down but steady for the UK

Oil supply from **Norway** is expected to decline by 130 tb/d in 2008 from the previous year to average 2.43 mb/d, indicating a downward revision of 16 tb/d from last month's estimate. The downward revision came from the third quarter as further data for September production became available and indicated lower output than previously anticipated, on the back of processing plants and field maintenance. However, Norway's supply is expected to increase in the fourth quarter as production and support facilities return from maintenance. The preliminary October production figure stood at 2.56 mb/d which is supporting the notion of increased supply in the fourth quarter, and might require an upward revision in the near future. On a quarterly basis, Norway's supply stands at 2.51 mb/d, 2.39 mb/d, 2.37 mb/d and 2.45 mb/d, respectively.

Oil supply from the **UK** is expected to experience a drop of around 130 tb/d in 2008 to average 1.55 mb/d, unchanged from last month. While there were upward revisions to the second and third quarter forecasts to adjust for actual production data, a downward revision to the fourth-quarter supply brought equilibrium to UK supply compared to last month's assessment. On a quarterly basis, UK oil supply stands at 1.69 mb/d, 1.63 mb/d, 1.46 mb/d and 1.44 mb/d respectively.

Asia Pacific

Australia forecast revised down

Oil production from the **OECD Asia Pacific** region is forecast to average 0.66 mb/d in 2008, indicating an increase of 60 tb/d from 2007, which represents a downward revision of 8 tb/d from the previous month's assessment. On a quarterly basis, total oil supply is estimated to average 0.58 mb/d, 0.63 mb/d, 0.64 mb/d and 0.79 mb/d, respectively.

Australia's oil supply is anticipated to average 0.55 mb/d in 2008, indicating an increase of 30 tb/d over 2007, representing a downward revision of 5 tb/d from the previous month's level. The downward revision came on the back of the expectation of lower than previously expected ramp-ups. On a quarterly basis, production stands at 0.47 mb/d, 0.53 mb/d, 0.54 mb/d, and 0.66 mb/d, respectively. The preliminary figure for October production stands at 0.57 mb/d.

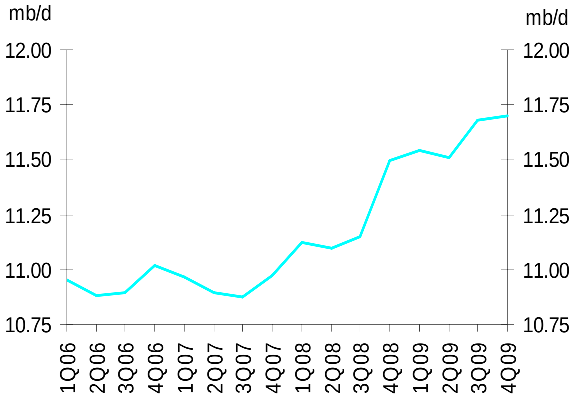
New Zealand's oil supply forecast was revised down on the back of adjustments carried out for third-quarter production to adjust to available actual figures.

Developing Countries

Developing Country supply increases

Developing Countries (DCs) oil supply is estimated to average 47.73 mb/d in 2008, indicating an increase of 290 tb/d from 2007, higher by 13 tb/d than the previous month's assessment. Actual production data supported the increase from Latin America and the Middle East, while the Other Asia group offset some of the increase with a minor downward revision. Brazil remains the major contributor to the growth in the DC group. On a quarterly basis, total oil supply in DCs is foreseen to stand at 11.13 mb/d, 11.10 mb/d, 11.15 mb/d and 11.50 mb/d, respectively.

Graph 22: Developing Countries' quarterly production



Oil supply from the **Other Asia group** is expected to increase by 30 tb/d in 2008 over 2007 to average 2.75 mb/d, lower by a minor 8 tb/d from last month's assessment. The downward revision to the forecast came from Vietnam, where actual production data for the third quarter indicated a decrease from the previously expected figure. Malaysia's fourth-quarter supply figure was revised down, while third-quarter production figures were revised up. On a quarterly basis, Other Asia supply is expected to average 2.76 mb/d, 2.67 mb/d, 2.68 mb/d and 2.91 mb/d respectively.

Latin American revised slightly higher on updated production data

Oil production from the **Latin American group** is foreseen to increase by 0.21 mb/d over 2007 to average 4.09 mb/d in 2008, indicating a minor upward revision of 14 tb/d since last month's estimate. The upward revision was supported by updated actual production figures from Argentina and Brazil in the first and second quarters, while the adjustment to Brazil's third-quarter figure negatively affected the upward revision. Brazil's quarterly supply now stands at 2.25 mb/d, 2.28 mb/d, 2.32 mb/d and 2.42 mb/d, respectively. On a quarterly basis, Latin America's supply stands at 4.02 mb/d, 4.06 mb/d, 4.11 mb/d and 4.17 mb/d, respectively.

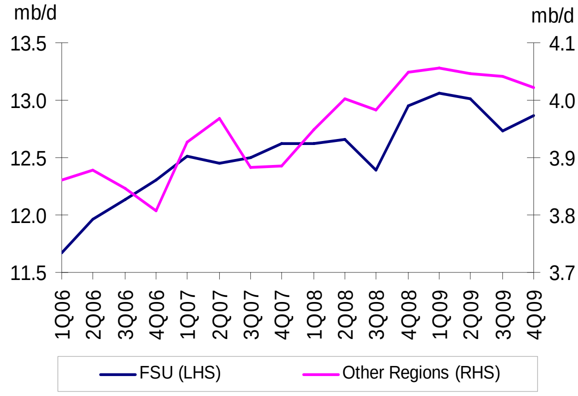
Middle East group oil production is estimated to decline by around 10 tb/d over 2007 to average 1.65 mb/d in 2008, slightly higher by around 6 tb/d from the previous month's assessment. The minor upward revision came from Syria as an adjustment to actual production data. On a quarterly basis, Middle East group production stands at 1.64 mb/d, 1.65 mb/d, 1.64 mb/d and 1.66 mb/d, respectively.

Oil supply from the **Africa group** is forecast to increase by 50 tb/d in 2008 over 2007 to average 2.72 mb/d, unchanged from the previous month's assessment. On a quarterly basis, the Africa group production stands at 2.71 mb/d, 2.71 mb/d, 2.71 mb/d and 2.75 mb/d, respectively.

FSU, Other Regions

The **FSU** oil supply is projected to average 12.66 mb/d in 2008, growth of 0.14 mb/d over 2007, which represents a downward revision of 56 tb/d from last month's estimates. On a quarterly basis, total oil supply in the FSU is expected to average 12.62 mb/d, 12.66 mb/d, 12.40 mb/d and 12.95 mb/d respectively. China's oil supply is seen to average 3.85 mb/d indicating growth of around 85 tb/d in 2008 over 2007. Other Europe group is expected to remain flat over 2007 at 0.14 mb/d.

Graph 23: FSU and other region's quarterly production



Russia

Russia oil supply revised down

Oil supply from **Russia** is anticipated to average 9.83 mb/d in 2008, representing a decline of 40 tb/d over 2007, and lower by 17 tb/d from last month's assessment. The adjustment to actual production figures for the third quarter resulted in the downward revision in addition to the expected decline in the fourth quarter from our previous estimate. It is reported that, while export duties and taxes were revised down, they were unable to cope with the fast declining oil prices and hence did not support producers to bring up more barrels. On a quarterly basis, Russian oil supply is estimated to average 9.78 mb/d, 9.74 mb/d, 9.81 mb/d and 10.00 mb/d, respectively.

Caspian

Oil supply from **Kazakhstan** is forecast to average 1.42 mb/d in 2008 indicating an increase of 65 tb/d over 2007, and representing a minor downward revision of 5 tb/d compared to the previous month's estimate. The adjustment to actual production figures, which were lower than expected on the back of heavy maintenance, required the minor downward revision. On a quarterly basis, Kazakh supply is expected to stand at 1.42 mb/d, 1.44 mb/d, 1.31 mb/d and 1.49 mb/d, respectively.

Central Azeri expected to resume operation at end of November

Azerbaijan oil supply is estimated to grow by 90 tb/d in 2008 over 2007 to average 0.95 mb/d which represents a downward revision of 34 tb/d from the previous month's assessment. While the West Azeri oil platform resumed operation in October, after a gas leak prompted the shutdown, Central Azeri remains shut down and is expected to resume operation by the end of November. The current estimate for the Central Azeri return drove the downward revision in our fourth quarter forecast, and might require further downward revisions in the coming months. On a quarterly basis, Azerbaijan oil supply stands to average 0.96 mb/d, 1.02 mb/d, 0.82 mb/d and 1.00 mb/d, respectively.

China

China's oil supply is foreseen to average 3.85 mb/d in 2008, higher by around 85 tb/d over 2007, unchanged from last month's estimate. On a quarterly basis, China's supply is expected to average 3.81 mb/d, 3.86 mb/d, 3.84 mb/d and 3.91 mb/d, respectively.

Forecast for 2009

Non-OPEC supply in 2009 to grow by 740 tb/d

Non-OPEC oil supply in 2009 is expected to increase by 0.74 mb/d over the estimate for the current year to average 50.39 mb/d. This represents a downward revision of 0.22 mb/d from last month's assessment. On a quarterly basis, non-OPEC supply is expected to average 50.81 mb/d, 50.30 mb/d, 49.98 mb/d and 50.48 respectively. The current financial situation has pressured companies to cut their planned capital expenditure, which has sharply influenced the supply forecast. All regions contributed to the downward revision with the FSU coming on top of the list.

Table 14: Non-OPEC oil supply in 2009, mb/d

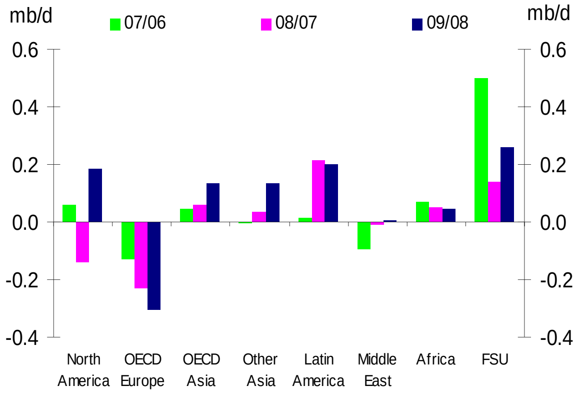
	2008	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08
North America	14.16	14.46	14.21	14.26	14.44	14.35	0.19
Western Europe	5.00	4.90	4.74	4.48	4.68	4.70	-0.30
OECD Pacific	0.66	0.80	0.78	0.80	0.79	0.80	0.13
Total OECD	**19.83**	**20.17**	**19.74**	**19.54**	**19.92**	**19.84**	**0.01**
Other Asia	2.75	2.89	2.83	2.91	2.93	2.89	0.14
Latin America	4.09	4.25	4.28	4.34	4.31	4.29	0.20
Middle East	1.65	1.65	1.66	1.66	1.66	1.66	0.01
Africa	2.72	2.75	2.74	2.78	2.81	2.77	0.05
Total DCs	**11.22**	**11.54**	**11.51**	**11.68**	**11.70**	**11.61**	**0.39**
FSU	12.66	13.06	13.02	12.73	12.86	12.92	0.26
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	3.85	3.91	3.91	3.90	3.88	3.90	0.04
Total "Other regions"	**16.65**	**17.12**	**17.06**	**16.77**	**16.88**	**16.96**	**0.30**
Total Non-OPEC production	**47.70**	**48.83**	**48.32**	**47.99**	**48.50**	**48.41**	**0.71**
Processing gains	1.95	1.98	1.98	1.98	1.98	1.98	0.03
Total Non-OPEC supply	**49.65**	**50.81**	**50.30**	**49.98**	**50.48**	**50.39**	**0.74**
Previous estimate	49.74	51.11	50.55	50.33	50.83	50.70	0.97
Revision	-0.09	-0.29	-0.25	-0.36	-0.35	-0.31	-0.22

Revisions to the 2009 forecast

US supply in 2009 revised down by 250 tb/d

US oil supply is forecast to increase by 0.25 mb/d in 2009 over the current 2008 level to average 7.80 mb/d, representing a downward revision of 48 tb/d from the previous month's appraisal. The downward revison was due to anticipated delays on the back of the credit crisis. **Mexico**'s supply is expected to decline by 160 tb/d in 2009 compared to the 2008 estimate, lower by 25 tb/d than the previous month's assessment. The downward revision was introduced to accommodate ongoing heavy decline. Oil supply from **Australia** is foreseen to grow by 0.1 mb/d in 2009 over the previous year, a downward revision of 30 tb/d from the previous assessment, mainly on the back of expected project delays in both start-ups and ramp-ups. **Malaysia**'s supply is forecast to increase by 20 tb/d in 2009 to average 0.8 mb/d, a downward revision of 30 tb/d, to accommodate the adjustment to actual figures carried over to 2009. Oil supply from **Brazil** is foreseen to increase by 0.24 mb/d in 2009 to average 2.55 mb/d, around 30 tb/d less than last month's forecast, on the back of expected delays in project start-ups and ramp-ups due to the anticipated financial limitations. **Russia**'s oil supply is expected to average 9.84 mb/d in 2009, relatively steady from the current 2008 level, with only a minor increase of 10 tb/d, which represents a downward revision of 88 tb/d from last month's estimate. The announced heavy cuts in capital expenditure by operators in Russia were the main factor behind the revision. Kazakhstan's oil supply is projected to increase by 50 tb/d in 2009 to average 1.46 mb/d, which represents a downward revision of around 50 tb/d from last month's figure. The downward revision came mainly on the back of the financial circumstances as well as the persisting logistical constrains on export routes.

Graph 24: Regional Non-OPEC supply growth, y-o-y



OPEC natural gas liquids and non-conventional oils

OPEC NGLs to grow by 660 tb/d in 2009

OPEC NGLs and non-conventional oils are estimated to average 4.71 mb/d in 2008, representing growth of around 0.49 mb/d over the previous year. In 2009, OPEC NGLs and non-conventional oils are anticipated to increase by 0.66 mb/d from the current 2008 level to average 5.36 mb/d.

Table 15: OPEC NGLs + non-conventional oils, 2006-2009

	2006	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	2009	Change 09/08
Total OPEC	**4.07**	**4.21**	0.14	4.47	4.67	4.77	4.89	**4.71**	0.49	**5.36**	0.66

OPEC crude oil production

OPEC crude output averaged 32.0 mb/d in October

OPEC total crude oil production averaged 32.04 mb/d in October, representing a drop of 132 tb/d from the previous month, according to secondary sources. The majority of the decrease came from Saudi Arabia, Venezuela, UAE, and Iran, while production increases were seen in Angola and Iraq. OPEC production not including Iraq stood at 29.73 mb/d, a decline of 227 tb/d from the previous month.

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

	2007	4Q07	1Q08	2Q08	3Q08	Aug 08	Sep 08	Oct 08	*Oct/Sep*
Algeria	1,360	1,386	1,396	1,404	1,405	1,406	1,406	1,404	*-2.1*
Angola	1,660	1,777	1,873	1,897	1,845	1,869	1,761	1,883	*121.7*
Ecuador	507	509	505	502	504	503	503	500	*-3.2*
Indonesia	844	841	862	859	852	854	851	840	*-10.8*
Iran, I.R.	3,855	3,907	3,934	3,884	3,923	3,927	3,915	3,878	*-37.5*
Iraq	2,089	2,330	2,301	2,387	2,332	2,374	2,220	2,315	*94.8*
Kuwait	2,464	2,508	2,535	2,582	2,600	2,596	2,596	2,573	*-22.4*
Libya, S.P.A.J.	1,710	1,741	1,751	1,730	1,683	1,658	1,721	1,735	*14.2*
Nigeria	2,125	2,158	2,044	1,857	1,963	1,959	2,017	2,000	*-16.8*
Qatar	807	825	839	851	859	859	853	835	*-18.3*
Saudi Arabia	8,654	8,921	9,057	9,176	9,460	9,467	9,369	9,216	*-153.5*
UAE	2,504	2,427	2,586	2,609	2,603	2,599	2,602	2,563	*-39.2*
Venezuela	2,392	2,395	2,385	2,365	2,348	2,348	2,360	2,301	*-59.0*
Total OPEC	**30,970**	**31,726**	**32,068**	**32,103**	**32,377**	**32,419**	**32,173**	**32,041**	***-132.2***
OPEC excl. Iraq	**28,881**	**29,396**	**29,767**	**29,716**	**30,045**	**30,045**	**29,953**	**29,726**	***-227.0***

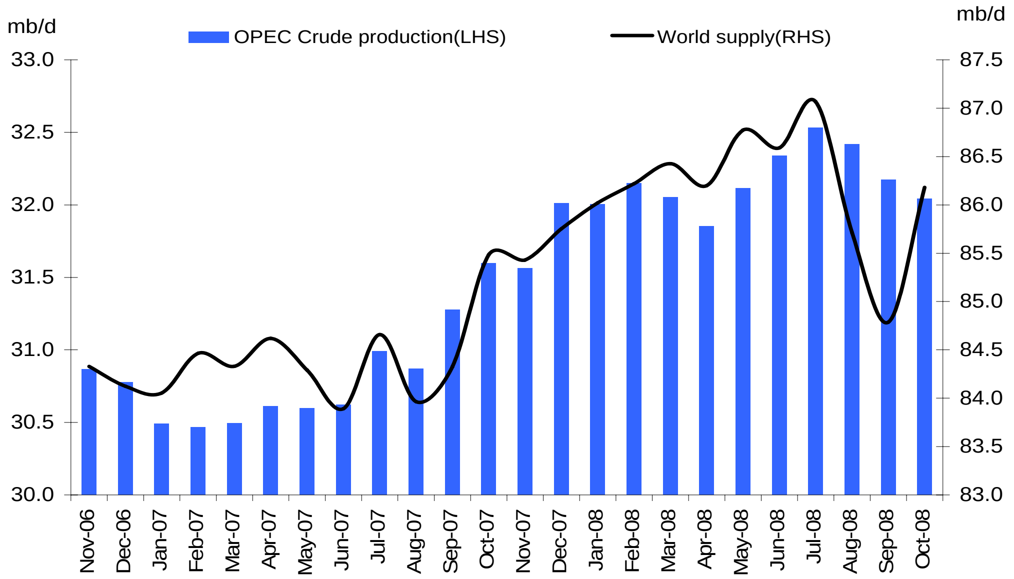
Totals may not add due to independent rounding.

World Oil Supply

Global supply estimated at 86.2 mb/d in October

Preliminary figures indicate that world oil supply increased by 1.4 mb/d in October from the previous month to averaged 86.18 mb/d. Non-OPEC supply experienced an increase of more than 1.5 mb/d while OPEC crude production fell. OPEC's share in global crude oil production declined slightly to 37.2% in October. The estimate is based on preliminary data for non-OPEC supply, estimates for OPEC NGLs, and OPEC crude production from secondary sources.

Graph 25: OPEC and World oil supply



FSU net exports of crude and products

FSU total net oil exports are now forecast to decline by around 10 tb/d in 2008 from the previous year's level to average 8.52 mb/d in 2008. Total FSU net oil exports are expected to increase by around 0.19 mb/d in 2009 over the current 2008 level to average 8.72 mb/d.

Current trends

Actual August figures indicate that total crude exports from the FSU averaged 5.48 mb/d. Preliminary September data indicate average crude exports at 6.00 mb/d, around 514 tb/d more than in August. The return of the BTC pipeline after the explosion in September supported the increase, in addition to higher volumes from the Baltic and Druzhba pipelines and the Russian Rails. The Black Sea and CPC pipelines indicated declines in the volumes transferred in September compared to the previous month.

Table 17: FSU estimated net oil exports (historical and forecast), mb/d

	1Q	2Q	3Q	4Q	Year	Growth (y-o-y)
2005	7.45	7.69	7.77	7.85	**7.69**	**0.37**
2006	7.88	8.31	8.19	8.03	**8.10**	**0.42**
2007	8.64	8.74	8.50	8.27	**8.54**	**0.43**
2008 (estimate)	**8.65**	**8.77**	**8.17**	**8.51**	**8.52**	**-0.01**
2009 (forecast)	**9.04**	**9.08**	**8.44**	**8.35**	**8.73**	**0.20**

Table 18: Recent FSU exports of crude and products by source, mb/d

	2006	2007	1Q08	2Q08	3Q08	Aug 08	Sep 08*
Crude							
Russian pipeline							
Black Sea	1,288	1,360	1,224	1,345	1,226	1,208	1,140
Baltic	1,553	1,645	1,530	1,678	1,539	1,444	1,604
Druzhba	1,288	1,122	1,130	1,053	1,034	1,039	1,071
Total* **	**4,129**	**4,127**	**3,884**	**4,076**	**3,817**	**3,709**	**3,837**
Other routes							
Russian rail	313	290	296	342	260	222	276
Russian - Far East	84	247	209	204	214	227	234
Kazak rail	31	15	17	18	17	17	18
CPC pipeline	661	701	624	709	632	653	620
Caspian	**396**	**249**	**191**	**196**	**148**	**159**	**157**
of which							
Supsa (AIOC) - Georgia	114	0	0	0	0	0	0
Batumi - Georgia	177	138	105	121	81	97	64
Total **	**1,702**	**2,234**	**2,110**	**2,348**	**2,046**	**1,776**	**2,162**
Total crude exports	**5,831**	**6,362**	**5,994**	**6,425**	**5,864**	**5,484**	**5,998**
Products							
All routes							
Fuel oil	861	841	1,085	1,131	1,262	1,314	1,130
Gasoil	841	677	855	787	703	644	660
Others	662	670	975	694	651	640	626
Total	**2,364**	**2,188**	**2,916**	**2,612**	**2,617**	**2,599**	**2,415**
Total oil exports	**8,195**	**8,550**	**8,910**	**9,037**	**8,479**	**8,083**	**8,413**

Source: Nefte Transport, Global Markets, Argus Fundamentals, Argus FSU, OPEC.

* *Preliminary.*

** *Total incl. BTC, Atasu-Alashankou and tanker shipments from Kaliningrad to Ventspils.*

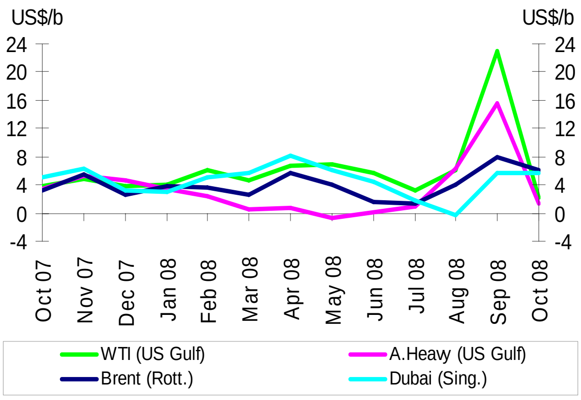
*** *Total incl. exports to China.*

Product Markets and Refinery Operations

Product market lost ground and refining margins slumped in October, especially in the Atlantic Basin

Upon completion of refinery maintenance and resumption of normal operation by refineries, particularly in the US following hurricane disruptions along the US Gulf Coast, product market sentiment changed significantly. These developments have combined with falling product demand resulting from further deterioration of world economic growth exerting downward pressure on product prices and refining economics. Due to the disappointing outlook for world economy and lower demand projection for different parts of the barrel components, the current bearish sentiment of the product markets may continue in the coming months and put more pressure on both crude and product prices. However, the possible cold weather in the Atlantic Basin may provide some support for crude prices, but not be enough to overcome the perceived bearish market prospects.

Graph 26: Refining margins



As Graph 26 shows, refining margins for WTI crude at the US Gulf Coast plunged by $20.69/b and reached $2.21/b from $22.90/b in September. Narrowing arbitrage opportunity to the US and lower regional demand have also put pressure on European refining economics. In line with these developments, Brent crude oil margins at Rotterdam fell to $6.14/b from $8.04/b last month.

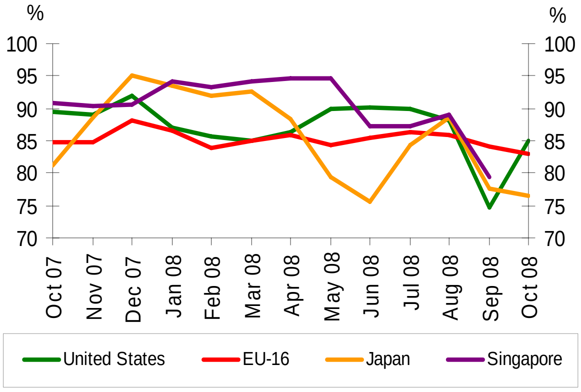
Given arbitrage opportunities for middle distillates to Europe and also the relatively strong sentiment for the bottom of the barrel component offset the weakness of the light product market in Asia and kept refining margins steady in this October. Refining margins for Dubai crude oil in Singapore rose marginally by 4¢/b to $5.70/b from $5.64/b in September.

Refinery operations

Refinery throughputs surged significantly in the US in October

A combination of seasonal refinery turnaround and hurricane events have negatively affected refinery operations in the US in September and resulted in lower refinery throughputs over the same month. Most refineries at the US Gulf Coast returned to normal operation and increased both product outputs and stocks in the US during October.

Graph 27: Refinery utilization rates



As Graph 27 indicates, the refinery utilization rate in the US jumped by 10% compared to the previous month to reach 85.1% from 74.8% in September. In Europe, refinery utilization rates fell by 1.2% to 82.9% in October from 84.1% last month. In Asia, refiners followed suit and reduced their throughputs due to relatively low margins. In Japan, refinery utilization rates have declined by 1% to 76.6% from 77.6% in September.

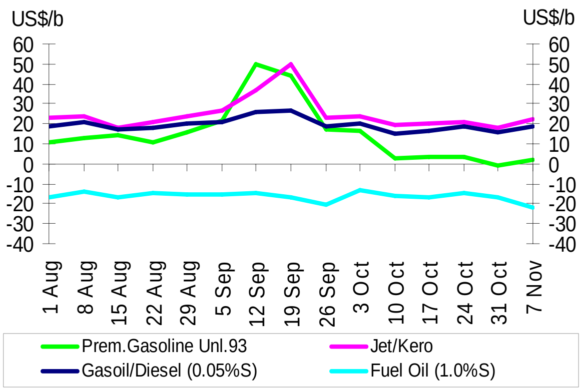
Looking ahead, given comfortable product stock levels, the deteriorating demand situation resulting from the bleak world economic growth and fragile refining economics, refinery runs are not expected to follow their typical seasonal trend and increase significantly in the next months. It is worth noting that, due to persisting poor refining margins, there is the risk of slowing refining throughputs in the next months if the current mild weather continues in the future months.

The US product market sentiment weakened sharply in October

US market

As mentioned earlier, most of the Gulf Coast off-line refining capacity is back to normal operation and a combination of increasing refinery utilization rates and contraction of demand has led to product stock-building in the US. This situation heightened the bearish sentiment of the product market and put pressure on product prices and significantly narrowed the crack spread for light distillate products.

Graph 28: US Gulf crack spread vs. WTI, 2008



As **Graph 28** shows, the crack spread for premium gasoline at the US Gulf Coast versus WTI crude slipped to around $1/b in the first week of November from above $16/b in the same period of October. Due to seasonal factors and bleak economic growth projection, the current situation of the gasoline market is not expected to improve in the near future.

Positive developments in refinery operations along with lower demand of the agriculture sector and switching refinery mode in favour of the middle of the barrel components have also resulted in distillate stock-builds and mitigated distillate supply concerns. Diesel exports from the US to Europe which had been stopped in September, started again in October and provided some relief and support for the distillate market in the US.

However, the bearish perception of distillate demand because of current economic recession exerted pressure on gasoil prices and its crack spread declined compared with the previous month. Gasoil crack spread versus WTI crude declined to around $17/b in October from above $25/b last month **(***see* ***Graph 28*****)**. Jet fuel market also lost ground due to sluggish demand and refiners blended jet/kero with ultra-low sulphur diesel and heating oil. Distillate market sentiment may gain in the next months if there is a cold snap.

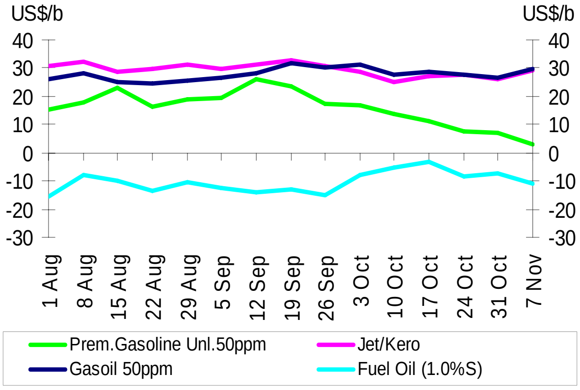
Similarly, weaker demand from the utility plants and replacing fuel oil by gas due to lower prices of gas have exerted pressure on the fuel oil market in the US. The low-sulphur fuel oil discount versus WTI reached minus $22/b in the week ending 7 November from about minus $13/b in early October. Looking ahead, export opportunities to Latin America and Asia may provide some support for the US fuel oil market in the future.

Light distillate market in Europe looks oversupplied

European market

Narrowing gasoline arbitrage opportunity to the US, reversing naphtha flow from Asia to Europe and lower demand have combined with increasing supply from regional refiners and exerted pressure on both gasoline and naphtha prices. Following these developments, the gasoline market flipped into contango and its crack spread narrowed sharply. As Graph 29 displays, the gasoline crack spread versus Brent crude oil slid $2.80/b in early November from over $16/b in the first week of October. Naphtha crack spread against the Brent crude plunged into negative territory. The current bearish development in the European light distillate market may remain in the next months.

Graph 29: Rotterdam crack spreads vs. Brent, 2008



Middle distillate stocks in Europe have improved compared to the previous month, but due to higher demand from Germany's household and tight regional supply because of some refinery outages, the distillate market sentiment in Europe may remain relatively strong. The gasoil crack spread against Brent crude oil at the Rotterdam market has slowed moderately compared to the previous month, but its is still above the historical average (*see* ***Graph 29***). The current low margins may encourage European refiners to cut their throughputs and to provide further support for the distillate market. However, the continuation of distillate exports from Asia and the US would mitigate the possible distillate supply tightness in Europe.

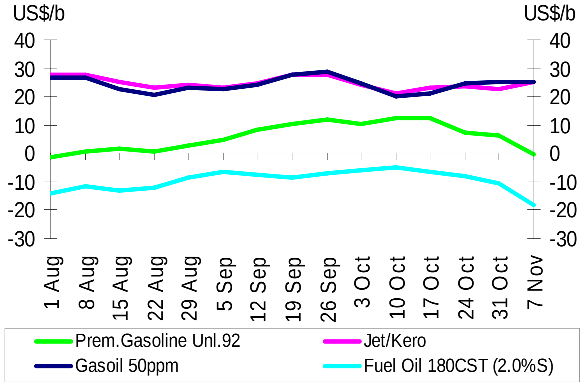
With regard to fuel oil, lack of export opportunities to Asia, ample supplies from Russia and weaker demand for bunker have deteriorated the bearish sentiment of the European fuel oil market. The low-sulphur fuel oil crack versus Brent crude oil widened **(***see* ***Graph 29*****)**. Seasonal increase in European inland demand should outpace the projected fuel oil supply growth and prevent the low-sulphur fuel oil market from further weakening in the near future.

Asian market

Asian market is seriously suffering from the deteriorating situation of the naphtha market

The Asian product market was relatively strong over the last months compared to other major markets, but the financial crisis and economic recession spreading to this area have undermined petrochemical margins and put extreme pressure on the naphtha market. Naphtha crack flipped into discount for the first time since 2001 on 10 October. Considering the bearish developments of the petrochemical business, the present sluggish situation of the naphtha market is expected to be to prolonged in the next months.

Graph 30: Singapore crack spreads vs. Dubai, 2008



Apart from naphtha, the gasoline market also lost ground due to lower regional demand and resumed Chinese exports. The gasoline crack spread against Dubai crude oil in the Singapore market slid significantly to almost minus 30¢/b in early November from above $10/b over the same period of last month **(***see* ***Graph 30*****)**.

Given the slowing regional demand and stock-builds of gasoil, middle distillate fundamentals in the Asian market have also eased, but export opportunities to Europe lent support to the middle of the barrel components. The gasoil crack spread against Dubai crude fell to $25/b in the week ending 7 November from $28/b in late September. The current situation of the Asian distillate market may ease further in the next months as new refineries come on stream in China and India.

As far as the fuel oil market is concerned, due to the arrival of long-haul shipments, more exports from the Middle East and lower demand for bunker, the strength of the Asian fuel oil market has disappeared in the latter part of the October and it may continue its recent bearish developments in the next months as regional supplies have been increased and arbitrage flow may increase more in November. Following these developments, the high-sulphur fuel oil crack spread versus Dubai crude reached about minus $18/b in early November from minus $5/b early in the previous month.

Table 19: Refined product prices, US$/b

		Aug 08	Sep 08	Oct 08	Change Oct/Sep
US Gulf (Cargoes):					
Naphtha		121.35	119.67	70.78	-48.89
Premium gasoline	*(unleaded 93)*	129.52	140.24	80.50	-59.74
Regular gasoline	*(unleaded 87)*	125.70	131.33	74.99	-56.34
Jet/Kerosene		137.58	139.24	97.03	-42.21
Gasoil	*(0.05% S)*	134.94	127.14	93.66	-33.48
Fuel oil	*(1.0% S)*	100.90	86.94	60.62	-26.32
Fuel oil	*(3.0% S)*	97.30	82.12	56.17	-25.95
Rotterdam (Barges FoB):					
Naphtha		125.53	111.21	69.23	-41.98
Premium gasoline	*(unleaded 10 ppm)*	129.93	120.10	82.48	-37.62
Premium gasoline	*(unleaded 95)*	115.51	105.79	73.35	-32.44
Jet/Kerosene		142.59	128.97	98.63	-30.34
Gasoil/Diesel	*(10 ppm)*	138.28	127.29	100.15	-27.14
Fuel oil	*(1.0% S)*	101.99	84.40	65.67	-18.73
Fuel oil	*(3.5% S)*	92.38	81.22	54.12	-27.10
Mediterranean (Cargoes):					
Naphtha		105.72	92.57	56.67	-35.90
Premium gasoline	*(50 ppm)*	130.39	119.15	84.00	-35.15
Jet/Kerosene		140.74	126.82	95.35	-31.47
Gasoil/Diesel	*(50 ppm)*	139.48	126.54	98.56	-27.98
Fuel oil	*(1.0% S)*	97.12	83.12	61.31	-21.81
Fuel oil	*(3.5% S)*	92.32	81.69	54.87	-26.82
Singapore (Cargoes):					
Naphtha		108.24	91.89	51.04	-40.85
Premium gasoline	*(unleaded 95)*	115.42	107.02	79.38	-27.64
Regular gasoline	*(unleaded 92)*	113.91	104.75	77.07	-27.68
Jet/Kerosene		137.57	121.42	89.97	-31.45
Gasoil/Diesel	*(50 ppm)*	135.87	121.57	90.00	-31.57
Fuel oil	*(180 cst 2.0% S)*	101.07	88.23	59.99	-28.24
Fuel oil	*(380 cst 3.5% S)*	99.84	87.77	59.08	-28.69

Table 20: Refinery operations in selected OECD countries

	Refinery throughput *mb/d*				**Refinery utilization** *%*			
	Aug 08	Sep 08	Oct 08	Oct/Sep	Aug 08	Sep 08	Oct 08	Oct/Sep
USA	15.36	13.05	14.84	1.79	88.0	74.8	85.1	10.3
France	1.72 R	1.75	1.65	-0.10	89.0 R	90.7	85.3	-5.4
Germany	2.14 R	1.92 R	2.23	0.31	88.7 R	79.5 R	92.1	12.6
Italy	1.74 R	1.80 R	1.77	-0.03	74.6 R	77.1 R	75.6	-1.5
UK	1.58 R	1.61	1.53	-0.08	84.9 R	86.5	82.4	-4.1
Euro16	12.04 R	11.81 R	11.64	-0.17	85.8 R	84.1 R	82.9	-1.2
Japan	4.12	3.61	3.56	-0.05	88.6	77.6	76.6	-1.0

R *Revised since last issue.*

Sources: *OPEC statistics; Argus; Euroilstock Inventory Report; IEA.*

The Tanker Market

Global and OPEC spot fixtures increased in October, while OPEC sailings were steady and arrivals to the US increased due to higher US crude imports

According to preliminary data, OPEC spot fixtures increased by 2.4% in October compared to the previous month to reach 12.09 mb/d. The increase was mainly due to higher OPEC fixtures outside the Middle East which increased by 20.7%, while OPEC fixtures from the Middle East were 12% lower. Within the Middle East, spot fixtures towards the East displayed a decline of 10.6%, while those towards the West dropped by 15.8%. The Middle East/East spot fixtures ended the month at 4.53 mb/d, down from 5.07 mb/d in September, while the Middle East/West route ended the month at 1.32 mb/d, down from 1.58. On a y-o-y basis, OPEC spot fixtures in October indicated a decline of 4.1% compared to October last year, while average spot fixtures for the first ten months of 2008 were 13.01 mb/d, indicating growth of 4.6% compared to the same period last year. Similarly, global spot fixtures increased in October by 4% compared to the previous month to stand at 19.06 mb/d, yet were about 2.2% lower compared to October last year.

Sailings from OPEC were once again steady in October at 23.0 mb/d compared to 23.13 mb/d in the previous month, and were also steady compared to the 23.14 mb/d in October last year. Middle East sailings in October were 17.23 mb/d, about 1% lower than both in the previous month and a year earlier. Crude oil arrivals in the USA increased by 15% in October compared to the previous month. This is due to the 1.6 mb/d increase in US crude oil imports in October compared to the lowest monthly import average of 8.6 mb/d in September. In contrast, arrivals in North-West Europe and the Mediterranean were steady in October compared to the previous month, while arrivals in Japan were slightly lower.

Table 21: Tanker chartering, sailings and arrivals, mb/d

	Aug 08	Sep 08	Oct 08	Change Oct/Sep
Spot Chartering				
All areas	19.10	18.33	19.06	0.73
OPEC	12.60	11.82	12.09	0.28
Middle East/east	5.01	5.07	4.53	-0.54
Middle East/west	1.89	1.58	1.32	-0.25
Sailings				
OPEC	23.33	23.13	23.00	-0.13
Middle East	17.53	17.43	17.23	-0.20
Arrivals				
US Gulf Coast, US East Coast, Caribbean	8.21	7.15	8.23	1.08
North West Europe	7.89	7.91	7.99	0.08
Euromed	4.65	4.70	4.68	-0.02

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

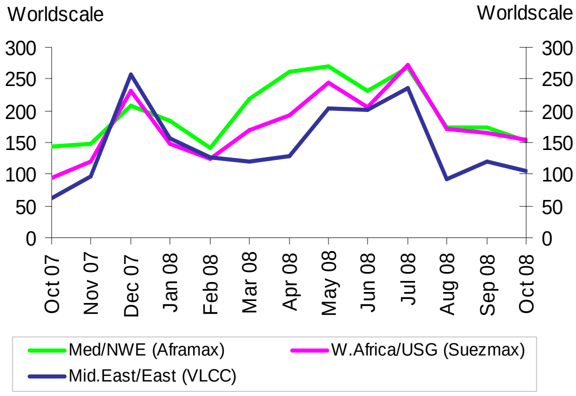
Dirty tanker spot freight rates declined in October by 12, with the Aframax sector displaying the highest monthly drop

The crude oil tanker market was much weaker in October compared to September with a clear sign that the overall pessimistic economic outlook and the steep falling of the equity markets are having their impacts on this market. October started with the Golden Week holiday in China and ended with the decision of OPEC to take some barrels out of the market that led sentiment shifting towards a bearish one that month and activity to the East of Suez being at its lowest so far in 2008. Taking all vessel categories into consideration and all reported routes for each category, spot freight rates for crude oil tankers declined by 12% in October compared to September, yet they were 39% higher than in October 2007 which illustrates once again the extent of firmness the market was enjoying prior to August's sharp decline in spot freight rates. Spot freight rates on the Aframax sector routes were generally weaker in October with the Caribbean to the US East Coast route showing the sharpest decline and the Far East route showing the lowest decrease. Spot freight rates in the VLCC sector were the rates that displayed the lowest monthly drop in October compared to both the Suezmax and Aframax. Spot freight rates in the Suezmax sector declined by 10% on average in October, while Aframax declined the most by 15%, all compared to the previous month. Apart from the two Mediterranean Aframax routes, most of the decline in spot freight rates took place during the second half of October. Towards the end of the month, freight rates were moving in different directions for every vessel category, each backed up by its specific market forces. Freight rates for the two reported Suezmax routes rebounded during the third and fourth weeks, gaining most of the previous losses in the month, while rates for most other routes continued their downward movement, especially for the VLCC sector which ended the month at a very low level. Freight rates for the clean tanker market followed the general directions of those of the crude tanker market during October, ending the month at an average drop of 16% for all reported routes. Contrary to the previous month, clean spot freight rates were much weaker to the West of Suez compared to those to the East of Suez.

VLCC spot freight rates displayed an average drop of 8% in October compared to September. Spot freight rates for VLCCs trading on the long-haul route from the Middle East to the East, which increased by 29% in September compared to August, dropped by 12% in October compared to September. Most of the decline in freight rates on this route took place during the second half of the month backed by unusual slow activity and high tonnage build up. Lower demand for Middle East crudes from Asian refiners, especially in Japan and China, had an impact on freight rates in this region. OPEC's decision to reduce production added support to the weak market sentiment. Spot freight rates on this route started the month at around WS140, holding within the WS130s for the first ten days of the month and started to decline continuously afterward, ending the month at WS71, very close to the lowest rate of WS65 reported this year by the end of August. VLCC spot freight rates on the Middle East to the East route ended the month with an average rate of WS105, second only to August's monthly average. On a y-o-y basis, spot rates for this route were still 68% higher than in October last year, down from 98% last month compared to a year earlier. Middle East to the West spot freight rates closed the month at a lower monthly decline of 7% in October compared to September. Throughout the month, freight rates on this route were following the same trend as that of the Middle East to the East route, fluctuating between WS110 and WS71, ending the month at an average of WS86, the lowest monthly average thus far in 2008. On an annual basis, Middle East VLCC spot freight rates for both routes displayed an average increase of 76% in October compared to October 2007, down from 100% in the previous month compared to a year earlier.

On the other hand, VLCC spot freight rates for voyages from West Africa to the East went through a steadily and modestly declining mode throughout the month, ending at an average of WS94, only 3% lower than in the previous month. October Suezmax spot freight rates in this region were an influential factor in the general softness of this market. On an annual basis, spot freight rates on the West Africa to the East route displayed an increase of 54% in October compared to the same month last year, down from 83% in September compared to a year earlier.

Graph 31: Monthly averages of crude oil spot freight rates



Suezmax spot freight rates for voyages to the US from West Africa and North-West Europe dropped in October by an average of 10% compared to the previous month. A generally more active West African market kept freight rates at relatively higher levels compared to other Suezmax routes in the Mediterranean and across the Atlantic that were impacted more by the BP shutting down two platforms at its Azeri-Chirag-Gunashli oil complex in Azerbaijan after a gas leak in mid-September, which subsequently shut in some 60% of production. This factor was the main reason for weaker freight rates in the Suezmax sector in October. Relatively similar weekly fluctuations in freight rates for both Suezmax routes were evident in October, with rates keeping steady during the first ten days of the month, dropping during the middle, and then rebounding during the third and fourth weeks.

From West Africa to the US Gulf, Suezmax spot freight rates ended the month with an average of WS154, about 7% lower than in the previous month. At 13%, the drop was higher for the North-West Europe to the US route. On an annual basis, average Suezmax freight rates for both routes displayed an increase of 52% in October compared to the same month in the previous year, down from 108% in September compared to a year earlier.

Aframax spot freight rates in October were 15% lower on average compared to September, with the Caribbean to the US route showing the largest drop of 26% and the Far East route showing the lowest drop of 5%, both compared to the previous month. South-bound voyages from Indonesia were active in October which helped to freight rates not to fall further, ending the month at WS175 compared to WS184 in the previous month. In the Mediterranean, freight rates on both across the Mediterranean and from the Mediterranean to North-West Europe routes were following the same pattern of weekly fluctuations over the month, keeping steady during the first week, rising during the second and third weeks, and then dropping about WS30 towards the end of the month. Freight rates on both Mediterranean routes ended the month at WS162 for the across the Mediterranean route and WS152 for the Mediterranean/North-West Europe route, down by 12% each compared to the previous month. On average, Aframax spot freight rates for the four reported routes displayed the highest monthly drop in October compared to VLCC and Suezmax freight rates, declining by 15% compared to the previous month, but, on an annual basis, they were still 25% higher than in the same period last year, down from 85% in September compared to a year earlier.

Table 22: Spot tanker crude freight rates, Worldscale

	Size *1,000 DWT*	Aug 08	Sep 08	Oct 08	Change Oct/Sep
Crude					
Middle East/east	230-280	92	119	105	-15
Middle East/west	270-285	89	92	86	-6
West Africa/east	260	171	165	154	-11
West Africa/US Gulf Coast	130-135	105	97	94	-3
NW Europe/USEC - USGC	130-135	167	159	138	-21
Indonesia/US West Coast	80-85	221	184	175	-10
Caribbean/US East Coast	50-55	247	274	204	-70
Mediterranean/Mediterranean	80-85	181	183	162	-21
Mediterranean/North-West Europe	80-85	173	173	152	-21

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

Average clean spot freight rates declined by 16%, while West of Suez, especially the trans-Atlantic route, displayed the highest decline.

Freight rates in the clean tanker market indicated a drop of 16% on average in October compared to the previous month for all the six reported East and West of Suez routes. Contrary to September, the market was much weaker to the West of Suez, especially in the trans-Atlantic voyages compared to the East of Suez. Freight rates for the trans-Atlantic voyages were under continued pressure in October due to very thin gasoline movements from North-West Europe to the US and gasoil movements in the opposite direction. This was in contrast to previous predictions that arbitrage of both products will be boosted after the end of heavy hurricane activity in September. The European gasoline market was relatively tight in October due to the heavy period of refinery maintenance which kept European gasoline cracks very strong for most of the month, closing any possibility of arbitrage to the US. As a result, trans-Atlantic clean spot freight rates declined by 35% in October compared to the previous month, the highest monthly drop among all clean tanker routes this month. Backed by a lack of cargoes and a healthy supply of tonnage, freight rates for both Mediterranean routes, the across the Mediterranean and Mediterranean to North-West Europe routes, dropped by 12% each in October compared to the previous month. The Caribbean market also followed the downside movement, dropping by 30% in October compared to the previous month. Altogether, average West of Suez clean spot freight rates were 23% lower in October than in the previous month, yet they were 36% higher than in October 2007, down from 93% in September compared to a year earlier.

To the East of Suez, once again the market was more active on the Singapore to East route compared to the Middle East to the East route. The steady South Asian market kept tonnage tight in the region and spot freight rates for the Singapore to the East route kept their firmness that had started two months ago throughout October to end the month with a further slight gain of 1%, while the Middle East to the East route went through a gradual decline, ending the month at a drop of 7% compared to September. As a result, average East of Suez spot freight rates were 3% lower in October compared to the previous month, but on an annual basis, they were 85% higher than in the same month last year, up from 73% in September compared to September last year. For both East and West of Suez, average clean spot freight rates were 16% lower in October compared to the previous month, but were about 53% higher than a year earlier.

Table 23: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	**Aug 08**	**Sep 08**	**Oct 08**	**Change Oct/Sep**
Products					
Middle East/east	30-35	364	353	328	-24
Singapore/east	30-35	311	325	328	3
Caribbean/US Gulf Coast	38-40	378	337	236	-101
NW Europe/USEC - USGC	33-37	315	325	210	-115
Mediterranean/Mediterranean	30-35	246	301	264	-36
Mediterranean/North-West Europe	30-35	256	311	274	-36

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

Oil Trade

OECD net oil imports declined by 5.8% in August, backed by lower net crude oil imports

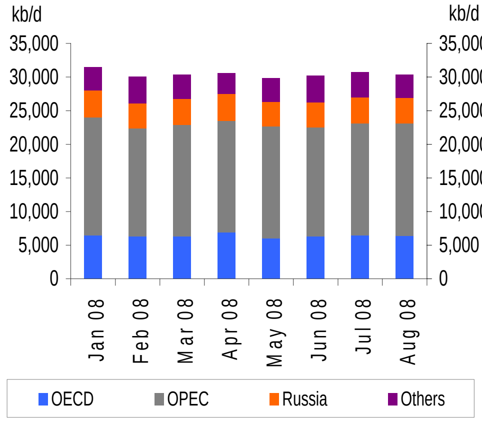
OECD

OECD crude oil imports in August averaged 30.37 mb/d indicating a decline of 358,000 b/d or 1.2% compared to the previous month, according to preliminary data. August crude oil imports were also 2.2% lower than a year earlier. Lower OECD crude oil imports in August are attributed to lower imports of countries such as Canada (-271,000 b/d), France (-261,000 b/d) and South Korea (-184,000 b/d) from the previous month, which more than offset increases in imports of countries like the US, UK and Japan over the same period. For the first eight months of 2008, OECD countries imported an average of 30.45 mb/d almost identical with their average crude oil imports during the same period last year — in other words OECD countries show no annual growth in imports during this period and, with the current pessimistic economic outlook, negative growth is expected for the coming months, especially for these countries.

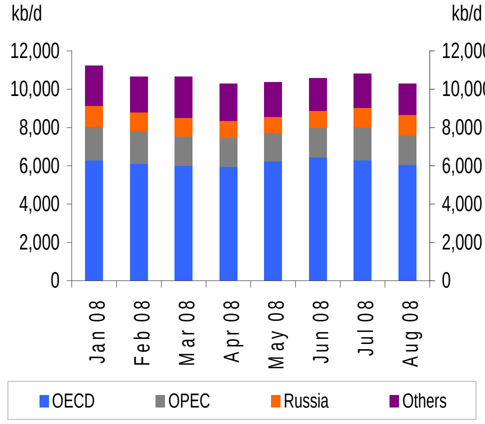
On the other hand, about 75% of the decline in OECD's crude oil imports in August is attributed to lower imports from outside the OECD. OECD countries imported an average of 24.04 mb/d of crude oil from outside the area in August, indicating a decline of 269,000 b/d or 1.1% compared to the previous month. The decline is mainly attributed to lower crude oil imports from Azerbaijan (-249,000 b/d), Brazil (-136,000 b/d) and Russia (-132,000 b/d) from the previous month, which more than offset increases of imports from OPEC Member Countries by 115,000 b/d and Colombia by 70,000 b/d. Crude oil imports from within the OECD area were 6.34 mb/d in August, indicating a drop of 1.4%, or 88,000 b/d compared to the previous month. Canada, Norway, Mexico and the UK are the top OECD crude oil suppliers to the OECD area in August, in a descending order. Crude oil imports from outside the OECD area for the first eight months of 2008 averaged 24.07 mb/d, indicating annual growth of 1.7% compared to the same period last year, while imports from within the OECD area averaged 6.38 mb/d, indicating an annual decline rate of 5.7%.

Similarly, OECD product imports in August declined by 533,000 b/d or 4.9%, compared to the previous month to average 10.28 mb/d. August product imports were also 3% lower than a year earlier. Average OECD product imports for the first eight months of 2008 were 10.61 mb/d indicating a very low annual growth of only 0.3% compared to the same period last year. About 59% of OECD product imports in August were supplied from within the OECD area, and 41% from outside. The 533,000 b/d decline in OECD product imports in August was the result of a drop of 279,000 b/d in imports originating from outside OECD and a decline of 254,000 b/d from within the OECD. Product imports from outside the OECD area declined by 5% during the first eight months of 2008 compared to the same period last year, while imports from within the OECD countries increased by 4.6% over the same period.

Sources of OECD crude oil imports



Sources of OECD product imports



On the export side, OECD crude oil exports averaged 5.97 mb/d in August, indicating a substantial increase of 10.1% or 549,000 b/d compared to the previous month, yet were 11.9% or 805,000 b/d lower compared to August 2007. The sharp increase of Norway's crude oil exports by 672,000 b/d was the main reason for higher OECD crude oil exports in August which offset declines in exports countries like the UK, by 231,000 b/d, both compared to the previous month. Average crude oil exports for the OECD Countries for the first eight months of 2008 were 6.1 mb/d, about 698,000 b/d or 8.1% lower than in the same period last year.

OECD product exports in August were about 10.28 mb/d, some 56,000 b/d or 0.6% higher than in the previous month. Increases in product exports of the Netherlands by 303,000 b/d and Japan by 111,000 b/d more than offset declines in exports of countries like France by 105,000 b/d and Germany by 92,000 b/d. On a y-o-y basis, OECD product exports in August were about 12.7% higher than in August 2007. OECD product exports for the first eight months of 2008 were at 9.71 mb/d, some 652,000 b/d or 7.2% higher than in the same period in 2007. The slight increase in OECD product exports in August compared to the previous month is attributed to higher exports to outside OECD area by 491,000 b/d, while exports to within the OECD declined by 435,000 b/d.

Accordingly, OECD net oil imports in August averaged 24.41 mb/d indicating a decline of 5.8% or 1.5 mb/d compared to the previous month and 5.2% compared to August 2007. At the same time, net oil imports for the first eight months of 2008 averaged 25.26 mb/d, indicating 0.4% annual growth over the same period in 2007. During the first eight months of 2008, OECD net crude oil imports were at 24.35 mb/d, up by 3%, or 0.71 mb/d compared to the same period in 2007, while net product imports were at 0.9 mb/d, down by 41% or 618,000 b/d compared to the same period last year. Net crude oil imports from outside the OECD were 24.36 mb/d in August, down by 1.0 mb/d or 4% compared to the previous month, while net crude oil imports from within the OECD area were 46,000 b/d, down by 481,000 b/d or 91% over the same period.

Table 24: OECD crude and product net imports/(exports), tb/d

	Jun 08	Jul 08	Aug 08	Change Aug/Jul
Crude oil	24,062	25,310	24,404	-906
Total products	204	593	4	-590
Total crude and products	**24,266**	**25,904**	**24,408**	**-1496**

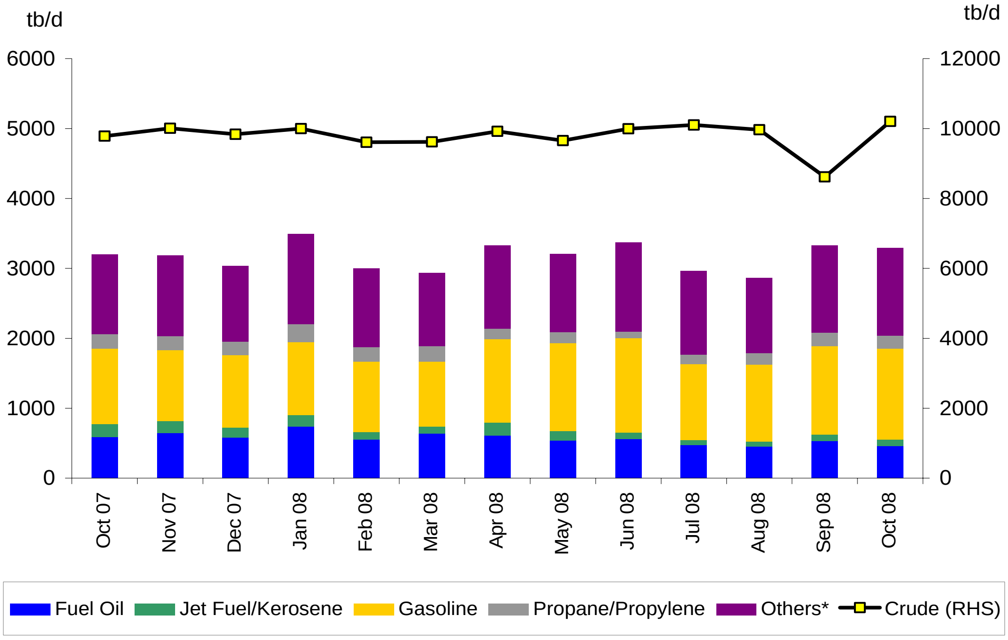
Saudi Arabia was the top OECD crude oil supplier in August with a 14.2% share, down from 14.7% in the previous month, followed by Russia with 12.4%, down from 12.8%. Canada supplied 6.1% and Norway 5.9% respectively. Altogether, OPEC Member Countries supplied 55.3% of total OECD crude oil imports in August, up from 54.3% in the previous month. At the same time, OPEC Member Countries supplied about 16.8 mb/d of crude oil to OECD Countries in August, representing 70% of total OECD imports from outside OECD. For products, OPEC Member Countries' share of total OECD product imports in August was 15.2%, down from 16% in the previous month. OPEC's supply of products to the OECD countries in August was about 1.56 mb/d, representing 42% of total OECD product imports from outside OECD countries and 26% of imports from within OECD. Saudi Arabia supplied 3.7%, Venezuela supplied 2.3%, Algeria 2.1% and Kuwait 2%. OECD's top non-OPEC product supplier in August was the Netherlands with 11.2%, followed by Russia and the USA with 10.2% and 10.1% respectively.

USA

US net oil imports rebounded in October, backed by a 1.59 mb/d surge in crude oil imports and higher exports

According to official data, US crude oil imports rebounded in October to average 10.2 mb/d, the highest monthly average since October last year. US crude oil imports in October were 18.4% or 1.59 mb/d higher than the record-low monthly imports of 8.62 m/d in the previous month and also 419,000 b/d or 4.3% higher than in the same month last year. Despite this substantial increase, average crude oil imports for the first ten months of 2008 were 9.8 mb/d, 2.6% or 257,000 b/d lower than in the same period last year. This decline is attributed to the overall state of the slowing US economy which has hit sales for almost all products, apart from gasoil, since December 2007.

Graph 32: USA's imports of petroleum products

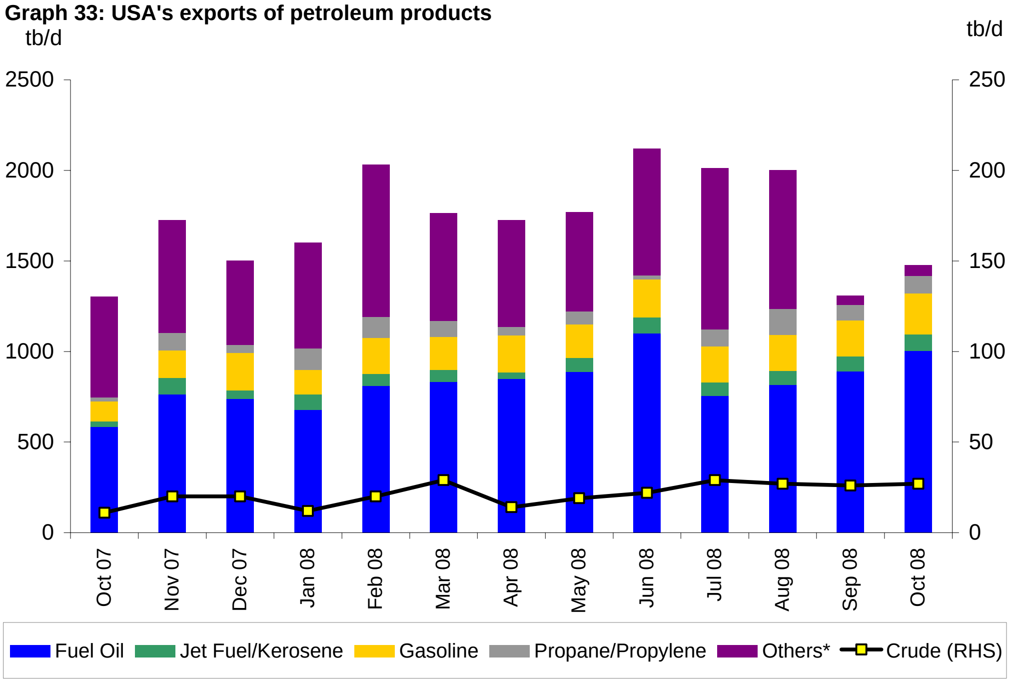


*Others: Contains Natural Gas Liquids, Liquefied Refinery Gases (LRG's), Other Liquids and all Finished Petroleum Products except Gasoline, Jet Fuel/Kerosene, Fuel Oil and Propane/Propylene.

Contrary to crude oil imports, US product imports were almost steady in October, declining by only 1% compared to the previous month to average 3.29 mb/d, yet they were 3% higher than in October 2007. Apart from distillate fuel oil, almost all major product imports were lower in October than in the previous month. Finished motor gasoline imports dropped in October by 64,000 b/d or 17% compared to the previous month to reach 304,000 b/d. Average US gasoline imports for the first ten months of 2008 dropped also by 17% compared to the same period last year to average 357,000 b/d. Distillate fuel oil imports increased in October by 5,000 b/d or 3% compared to the previous month to average 171,000 b/d. Average distillate fuel oil imports for the first ten months of 2008 were 204,000 b/d indicating a drop of 112,000 b/d or 35% compared to the same period last year. Residual fuel oil imports dropped in October by 73,000 b/d or 20% compared to the previous month, reaching about 293,000 b/d. In the first ten months of 2008, the US imported 5% less of residual fuel oil than in the same period last year. On average, US product imports declined by 327,000 b/d or 9.3% in the first ten months of 2008 compared to the same period last year.

On the export side, US product exports increased by 170,000 b/d or 12.7% in October compared to the previous month to average 1.51 mb/d. This represents an increase of 191,000 b/d or 15% compared to their levels a year earlier. Average US product exports for the first ten months of 2008 were 1.8 mb/d indicating an increase of 442,000 b/d or 32.5% compared to the same period last year.

Graph 33: USA's exports of petroleum products



*Others: Contains Natural Gas Liquids, Liquefied Refinery Gases (LRG's), Other Liquids and all Finished Petroleum Products except Gasoline, Jet Fuel/Kerosene, Fuel Oil and Propane/Propylene.

As a result, US net oil imports increased by 13% in October compared to the previous month to reach about 11.96 mb/d. The 1.38 mb/d increase in net oil imports in October came as a result of the 1.58 mb/d increase in net crude oil imports and the 0.2 mb/d decline in net product imports compared to the previous month. On a y-o-y basis, US net oil imports in October were 2.6% higher than in the same month last year. Average net oil imports for the first ten months of 2008 were 11.14 mb/d indicating a drop of 1.0 mb/d or 8.5% compared to the same period last year.

Table 25: USA crude and product net imports/(exports), tb/d

	Aug 08	Sep 08	Oct 08	Change Oct/Sep
Crude oil	10,244	8,592	10,176	1584
Total products	748	1,990	1,786	-204
Total crude and products	**10,992**	**10,582**	**11,962**	**1380**

Canada continues as top US crude supplier, followed by Saudi Arabia

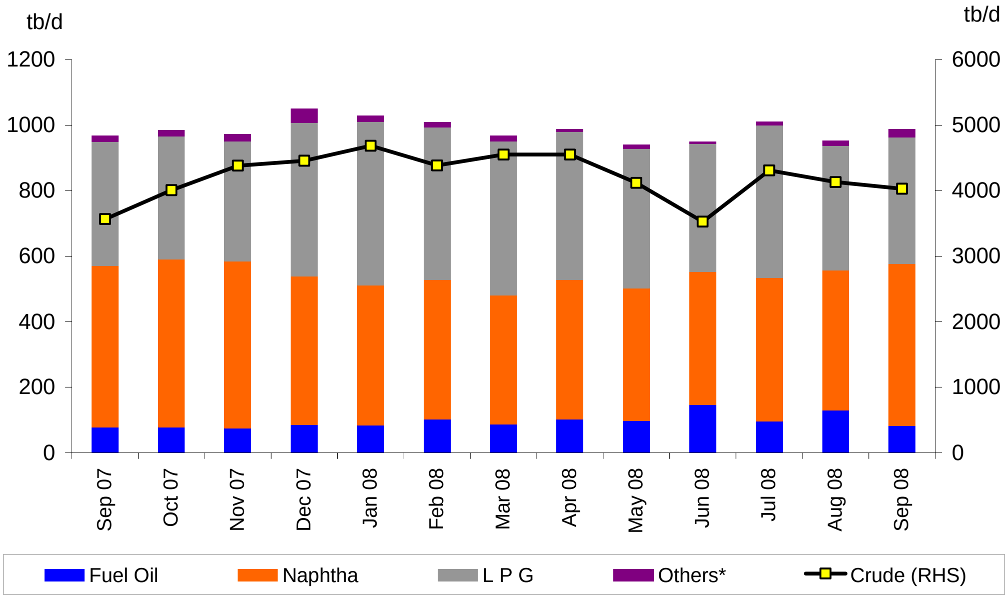
Canada was the top crude oil supplier to the US in August with a share of 17.8%, down from 19.4% in the previous month, followed by Saudi Arabia with 14.9%, down from 16.4% in the previous month. Mexico and Venezuela came next with 12.6% and 11.1% respectively. Altogether, OPEC Member Countries supplied 56.6% of total US crude oil imports in August, up from 55.2% in the previous month. For product imports, Russia became the top product supplier to the US in August with a share of 13.3%, up from 12% in the previous month. Canada was next with a share of 13.2%, down from 14.5% in the previous month, followed by the Virgin Islands with 10.7%. For OPEC Member Countries, Algeria supplied 6.5% of total US oil product imports in August, followed by Venezuela with 5.7% and Nigeria with 4.7%. Altogether OPEC Member Countries supplied 20.4% of US product imports in August, up from 18.5% in the previous month. For US product exports in August, Mexico was the top importer with a share of 16.9%, down from 20% in the previous month, followed by Canada with 10.1% and the Netherlands with 7.4%. Altogether, OPEC Member Countries imported 3.8% of total US product exports in August, up from 2.7% in the previous month. Venezuela imported 2.1% and Nigeria 0.9%.

Japan's net oil imports increased in September by 2.3%, supported by lower product exports

Japan

According to Japanese published data, Japan's crude oil imports in September averaged 4.03 mb/d, indicating a y-o-y increase of 13% or about 0.46 mb/d compared to September 2007, yet were lower by 2.5% or 102,000 b/d compared to the previous month. The m-o-m drop is in line with the falling rates of oil product sales in this country which dropped in September, for the fourth straight month, by 11.9% compared to September 2007. Despite this month-to-month decline, Japan imported an average of 4.26 mb/d of crude oil in the first three quarters of 2008, indicating annual growth of 6.6% or 263,000 b/d compared to the same period in 2007.

Graph 34: Japan's imports of petroleum products

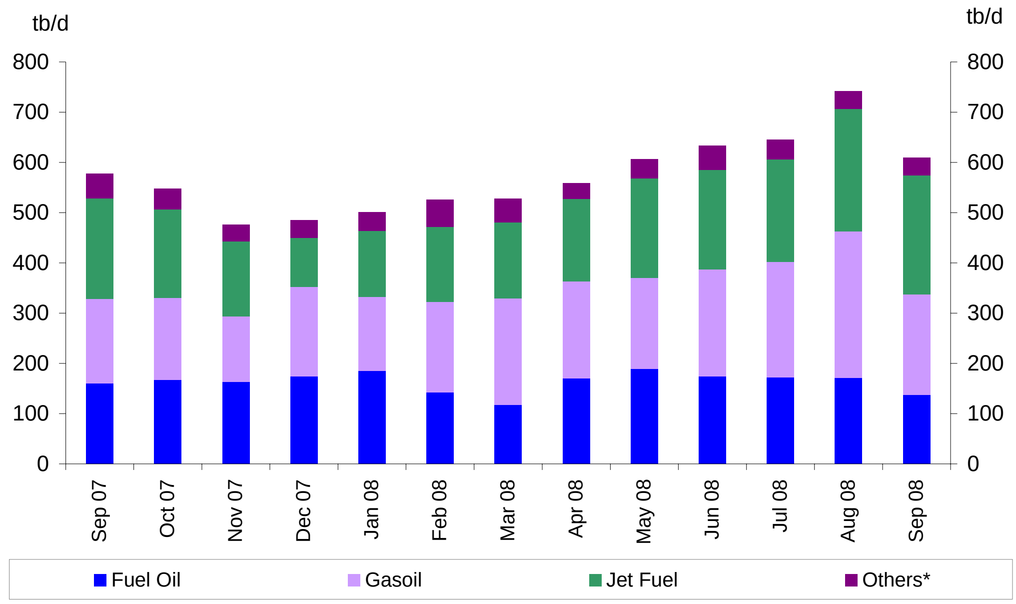


*Others: Contains Gasoline, Jet Fuel, Kerosene, Gasoil, Asphalt and Paraffin Wax.

Japan's product imports in September increased by 61,000b/d or 5.4% compared to the previous month, to average about 1.19 mb/d, displaying an annual increase of 1.7% compared to a year earlier. Japan mainly imports three products, namely naphtha, LPG and fuel oil, which constituted more than 97% of its total monthly product imports in September. Average LPG imports in September were about 387,000 b/d steady compared to the previous month and about 2.6% higher than a year earlier. For the first three quarters of 2008, Japan imported an average of 438,000 b/d of LPG almost identical to last year's average for the same period. Naphtha imports averaged 686,000 b/d in September, 15.9% or 94,000 b/d higher than in the previous month and steady compared to a year earlier. Naphtha imports for the first three quarters of 2008 were 8.7% lower than in the same period last year. Fuel oil imports in September were 88,000 b/d, representing a drop of 50,000 b/d or 36% from the previous month, but 6.8% higher from a year earlier. Fuel oil imports for the first three quarters of 2008 averaged 110,000 b/d, 69% higher than in the same period last year. Total product imports for the first three quarters of 2008 averaged 1.16 mb/d, 3.1% lower compared to the same period last year.

On the export side, Japan's product exports in September declined by 17% compared to the previous month, but were 6.2% higher than a year earlier averaging 709,000 b/d. Gasoil exports in September were about 229,000 b/d, down by 31.6% or 106,000 b/d compared to the previous month, but 18.6% higher than in September 2007. During the first three quarters of 2008, Japan exported an average of 237,000 b/d of gasoil, a substantial 58% increase over the same period last year. Jet fuel exports in September were about 294,000 b/d, almost steady compared to the previous month, but 19% higher compared to a year earlier. Jet fuel exports for the first three quarters of 2008 averaged 230,000 b/d, 15% higher than in the same period last year. Fuel oil exports in September were about 146,000 b/d, 20% lower than in the previous month and 14% lower than a year earlier. Japan exported lower quantities of kerosene, lubricating oil, gasoline, asphalt and LPG in September, totaling 41,000 b/d. Average product exports for the first three quarters of 2008 were about 683,000 b/d, indicating annual growth of 21.7% or 122,000 b/d compared to the same period in 2007.

Graph 35: Japan's exports of petroleum products



*Others: Contains LPG, Gasoline, Naphtha, Kerosene, Lubricating Oil, Asphalt and Paraffin Wax.

As a result, Japan's net oil imports in September were about 4.51 mb/d, indicating an increase of 103,000 b/d or 2.3% compared to the previous month and 10.9% compared to a year earlier. Average net oil imports for the first three quarters of 2008 were 4.73 mb/d, indicating a 104,000 b/d or 2.3% increase compared to the same period in the previous year. Japan's net product imports for the first three quarters of 2008 declined to 473,000 b/d from 633,000 b/d during the same period last year. This was mainly due to the 21.7% increase of its exports over the same period.

Table 26: Japan's crude and product net imports/(exports), tb/d

	Jul 08	Aug 08	Sep 08	Change Sep/Aug
Crude oil	4,309	4,132	4,029	-102
Total products	-12	-101	97	197
Total crude and products	**4,297**	**4,031**	**4,126**	**95**

UAE replaces Saudi Arabia as Japan's top crude supplier

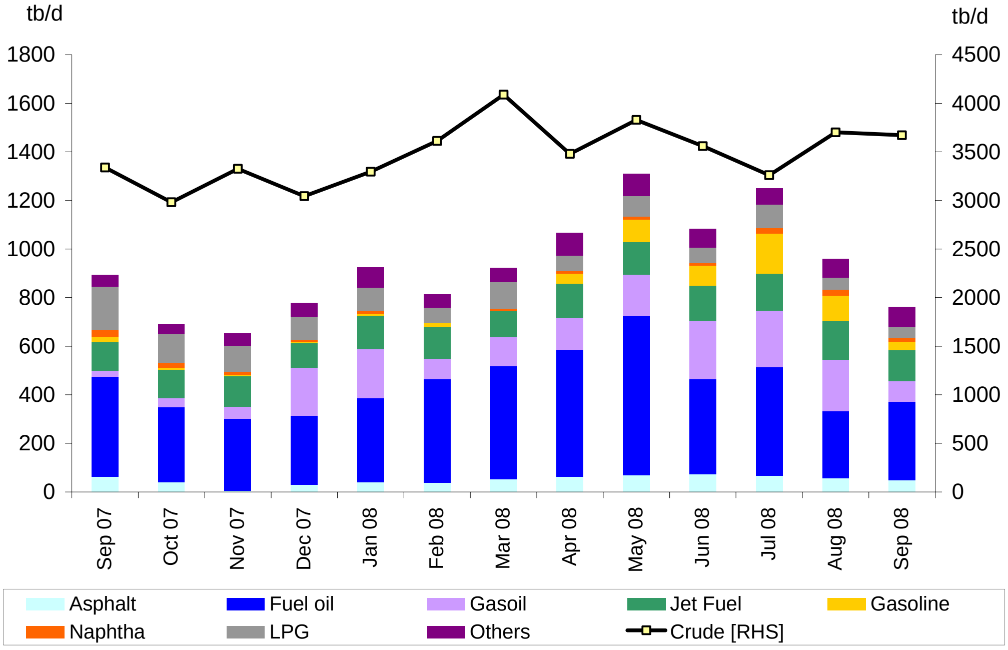
The UAE was Japan's top crude oil supplier in September, replacing Saudi Arabia for the first time since March last year. The UAE supplied 24.8% of Japan's crude oil imports in September, up from 23.8% in the previous month. Saudi Arabia's share was 24.3%, down from 24.6% in the previous month. Qatar supplied 12.1% of Japan's crude oil imports in August, up from 11.5% in the previous month, while Iran's share was 10.8%, down from 13.4% in the previous month. OPEC Member Countries supplied 88.2% of Japan's crude oil imports in August, up from 88.0% in the previous month. Top non-OPEC crude oil suppliers in September include Russia with 3.5%, up from 2.6% in the previous month, and Oman with 2.5%, unchanged from the previous month. On the product side, preliminary data indicate that Saudi Arabia was Japan's top supplier in September with 16.0%, down from 17.6% in the previous month, followed by the UAE with 14.1% and Kuwait with 12.2%. Altogether, OPEC Member Countries supplied 57.4% of Japan's product imports in July, up from 56.1%% in the previous month. Top non-OPEC product suppliers in September include South Korea with 8.6% and the USA with 8.5%.

China's net oil imports declined by 6% in September, but were 9% higher than a year earlier

China

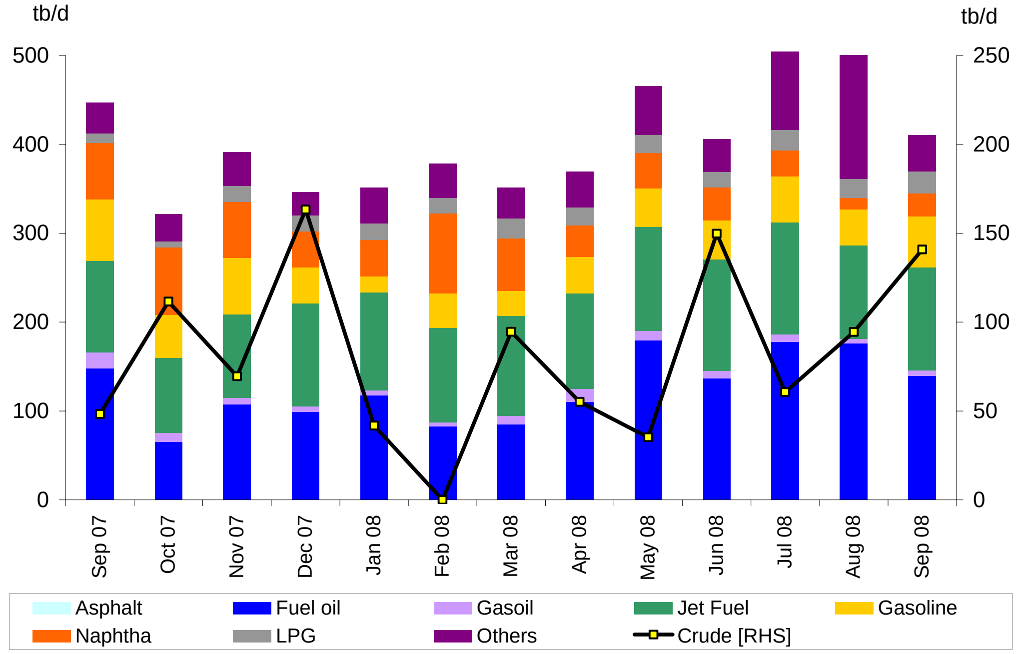
According to official Chinese data, China's crude oil imports declined in September to 3.67 mb/d, 0.8% or 29,000 b/d lower than in the previous month, yet they were 10% higher than in September last year. Average crude oil imports for the first three quarters of 2008 were 3.61 mb/d indicating some 0.28 mb/d or 8.4% annual growth over the same period last year. On the other hand, China's crude oil production in September was almost steady compared to the previous month, averaging 3.8 mb/d. China's September crude oil production was about 130,000 b/d higher than the country's crude oil imports in the same month.

Graph 36: China's imports of petroleum products



Similarly, China's product imports declined for the second month in a row to average 0.77 mb/d, the lowest average since December last year, indicating a decline of 191,000 b/d or 20% compared to the previous month, and 13% compared to a year earlier. Apart from fuel oil, imports of all major products dropped in September compared to the previous month. China imported about 35,000 b/d of gasoline in September, down from 106,000 b/d in the previous month. South Korea supplied 76% of China's gasoline imports in September and Singapore supplied the rest. Jet fuel imports in September reached about 128,000 b/d, down from 158,000 b/d in the previous month. South Korea supplied about 55% of China's jet fuel imports in September, followed by Japan with 34%. Naphtha imports in August were about 16,000 b/d, down from 26,000 b/d in the previous month. South Korea supplied all China's naphtha imports in this month. Gasoil imports in September were about 84,000 b/d, a substantial decline from 214,000 b/d in the previous month. Russia supplied 49% of this volume followed by Japan with 26%. China imported about 315,000 b/d of fuel oil in September, about 20% higher than in the previous month. The share of China's fuel oil imports in its total product imports increased from 27% in the previous month to 41% in September. Venezuela was once again China's top fuel oil supplier in September with 27%, followed by South Korea with 21%. Imports of LPG averaged 45,000 b/d in September, down from 48,000 b/d in the previous month. The UAE supplied 33% of China's LPG imports in September, followed by Saudi Arabia with 24%. Imports of asphalt averaged about 235,000 metric tonnes in September, down from 286,000 metric tonnes in the previous month. Altogether, China imported an average of 1.01 mb/d of products in the first three quarters of 2008, indicating annual growth of 8.5% over the same period last year. In September, fuel oil imports accounted for 41% of China's total product imports, jet fuel for 17%, gasoil for 11%, LPG for 6%, gasoline for 5% and naphtha for 2%.

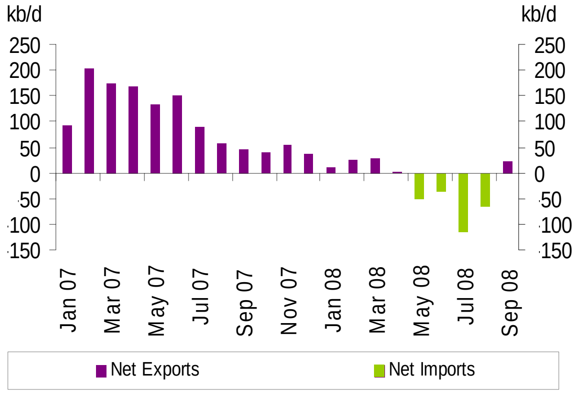
Graph 37: China's exports of petroleum products



On the export side, China's crude oil exports in September were 141,000 b/d up from 94,000 b/d in the previous month. About 33% of China's crude oil exports in September were destined to the USA and 24% to Japan. Average crude oil exports for the first three quarters of 2008 were 75,000 b/d, about 17% higher than in the same period last year.

China's product exports in August were 0.41 mb/d, steady compared to the previous month, but 8% lower than in September last year. The drop in fuel oil exports offset increases in all other major product exports in this month. Average product exports for the first three quarters of 2008 were about 0.4 mb/d, almost steady compared to the same period last year.

China's gasoline net-exports



Fuel oil exports in September were 134,000 b/d down by 18% or 30,000 b/d from the previous month. The main destinations for China's fuel oil exports in September were Panama with 40% followed by Hong Kong with 17%. Exports of jet fuel in September were about 113,000 b/d, up from 102,000 b/d in the previous month. About 47% of China's jet fuel exports in this month headed to Hong Kong and 12% to the USA. Gasoline exports were 57,000 b/d, up from 41,000 b/d in the previous month. Indonesia and Singapore imported 42% and 41% of China's gasoline exports in September respectively. Typically, China is a major Asian gasoline exporter. In its preparation for the Olympics, the country turned into a net gasoline importer for four successive months starting in May 2008. As expected, China has switched back to be a net gasoline exporter in September. Net gasoline exports were 22,000 b/d compared to net imports of 66,000 b/d in the previous month. China's naphtha exports in September were about 26,000 b/d, up from 13,000 b/d in the previous month. About 62% of China's naphtha exports headed to Japan and the rest to South Korea. Gasoil exports in September were 6,000 b/d, up from 5,000 b/d in the previous month. China exported 23,000 b/d of LPG in September, 44% of which to Vietnam and 32% to Hong Kong. Fuel oil exports accounted for 33% of China's total product exports in September, jet fuel for 28%, gasoline for 14%, naphtha for 6% and gasoil for 2%.

With net crude oil imports at 3.53 mb/d and net product imports at 0.36 mb/d, China's net oil imports in September were 3.89 mb/d, 6.4% or 268,000 b/d lower than in the previous month and also 4.2% lower than a year earlier. Lower net oil imports in September brought China's average net oil imports for the first three quarters of 2008 to about 4.15 mb/d, 9% higher than in the same period last year.

Table 27: China's crude and product net imports/(exports), tb/d

	Jul 08	Aug 08	Sep 08	Change Sep/Aug
Crude oil	3,200	3,607	3,531	-76
Total products	791	555	363	-192
Total crude and products	**3,991**	**4,162**	**3,894**	**-268**

Saudi Arabia is China's top crude supplier followed by Angola and Iran

Once again, Saudi Arabia was China's top crude oil supplier in September with a share of 27.1%, surging up from 14.4% in the previous month. Angola was next with 14.3%, down from 20% in the previous month. Iran's share of China's total crude oil imports in September was 12.7%, up from 11.9% in the previous month, followed by Oman with 9.2%. Altogether, OPEC Member Countries supplied 64.9% of China's crude oil imports in September, up from 61.3% in the previous month. Top non-OPEC crude oil suppliers in September include Oman, with 9.2%, Russia with 6% and Sudan with 5.1%.

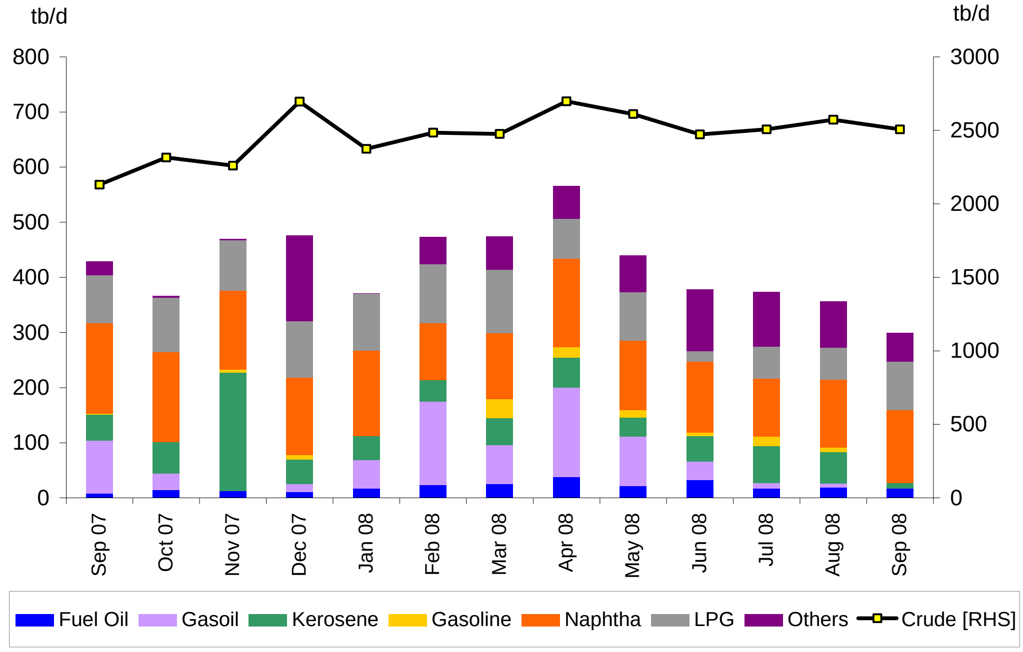
India

India's net oil imports declined by 5.8%, in September, supported by lower crude oil imports and steady product exports

According to preliminary data, India's crude oil imports in September declined by 66,000 b/d or 2.6% compared to the previous month to reach about 2.51 mb/d, indicating a 21.4% y-o-y increase compared to September last year. Higher crude oil imports in 2008 are mainly attributed to higher overseas purchases by Essar Oil and Reliance Industries which are export-oriented companies. In September, Essar Oil was running its unit at a higher capacity and Reliance Petroleum was about to commission its 580,000 b/d refinery. India's average crude oil imports for the first three quarters of 2008 were about 2.57 mb/d, 7% or 169,000 b/d higher than in the same period last year, supported by strong domestic fuel sales which grew by 7.8% in September, compared to a year earlier, and up from 3.6% in the previous month.

India's product imports in August averaged about 0.3 mb/d, the lowest level since February last year. Although India's domestic product sales increased in September by about 7.8% compared to a year earlier, total product imports declined by 30% over the same period. This is mainly attributed to the fact that major private refiners in India like Reliance and Essar Oil are selling more products domestically to meet higher demand. It is for this reason that there were no gasoil and gasoline imports in September although their domestic sales increased by 17.3% and 9.8% respectively compared to the same period last year. India imported an average of 107,000 b/d of gasoil in September 2007, representing 19% of its total product imports at that time. The entire drop in the country's gasoil imports in September is the main cause of the y-o-y 30% drop in total product imports. At the same time, higher gasoil sales in September are mainly attributed to higher demand by private power generators who have switched to gasoil over naphtha and fuel oil. Gasoil prices in India are subsidized, while naphtha and fuel oil prices are not.

Graph 38: India's imports of petroleum products



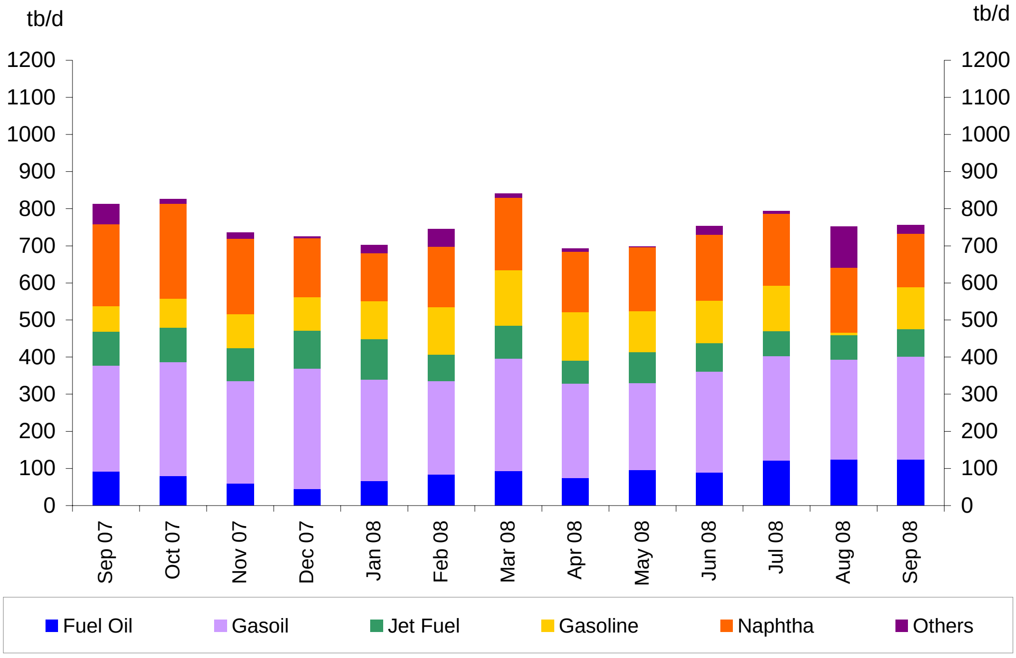
LPG imports in September averaged about 88,000 b/d compared to about 57,000 b/d in the previous month, yet they were 8% lower than a year earlier. Imports of naphtha increased in September by 7% compared to the previous month to reach 132,000 b/d, yet they were 40% lower than a year earlier. India imported about 17,000 b/d of fuel oil in September, down from 19,000 b/d in August, and about 10,000 b/d of kerosene, down from 57,000 b/d in August. Altogether, India imported an average of 0.41 mb/d of products during the first three quarters of 2008, indicating a decline of 26,000 b/d or 5.8% compared to the same period last year.

Table 28: India's crude and product net imports/(exports), tb/d

	Jul 08	Aug 08	Sep 08	Change Sep/Aug
Crude oil	2,802	2,573	2,507	-66
Total products	-405	-395	-457	-61
Total crude and products	**2,397**	**2,177**	**2,050**	**-127**

On the export side, India’s total product exports of 756,000 b/d in September were almost unchanged compared to the previous month, but were 19% lower than a year earlier. Declines in naphtha and gasoil exports were offset by increases in gasoline exports. Fuel oil exports in September averaged 123,000 b/d, unchanged from the previous month. In the first three quarters of 2008, India exported 36% more of fuel oil than in the same period last year. Jet fuel exports were 72,000 b/d in September, 8% higher compared to the previous month, yet 26% lower than a year earlier. Gasoil exports in September averaged 279,000 b/d, 3.6% higher than in August, but 41% lower than in September last year. In the first three quarters of 2008, India exported an average of 289,000 b/d of gasoil, about 7% lower than in the same period last year. Gasoline exports increased substantially in September, averaging about 114,000 b/d, up from 5,500 b/d in August. Average gasoline exports during the first three quarters of 2008 were about 13% higher than in the same period last year. Naphtha exports were 143,000 b/d in September, down from 175,000 b/d in the previous month and from 278,000 b/d in September last year. Naphtha exports during the first three quarters of 2008 were 33% lower than in the same period last year. Altogether, India exported an average of 0.74 mb/d of oil products during the first three quarters of 2008, 13.6%, or 117,000 b/d lower than in the same period last year.

Graph 39: India's exports of petroleum products



As a result, India's net oil imports in September averaged 2.05 mb/d displaying a decline of 5.8% or 127,000 b/d compared to the previous month, but 31.6% higher compared to a year earlier. In the first three quarters of 2008, India's net oil imports averaged 2.24 mb/d 13.1%, or 260,000 b/d higher than in the same period last year. The decline in net oil imports in August is attributed to a 66,000 b/d drop in net crude oil imports and a 61,000 b/d drop in net product imports.

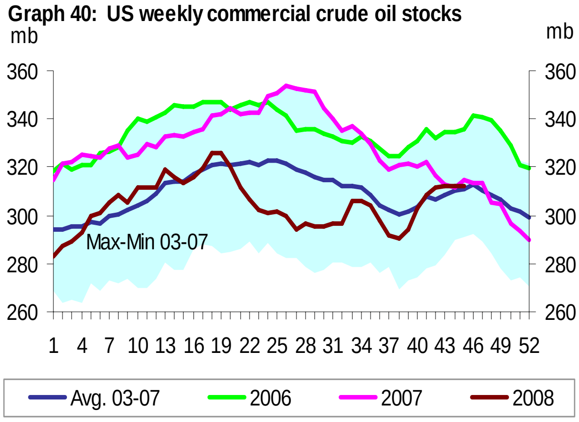
Stock Movements

US commercial oil inventories recovered from the hurricanes, surging by around 39 mb in October to stand comfortably at nearly 1,000 mb, the second highest level this year

USA

US commercial oil inventories recovered from a low level in September after having lost 44 mb due to hurricanes. Stocks rose by nearly 39 mb in October, offsetting to some extent the draw of previous month, to stand slightly below 1,000 mb, the second highest level this year after August. However, at 998 mb, US total stocks are still below the average of the previous five years but are very comfortable in terms of days of forward cover. The huge build in October, due mainly to products, was attributed to the combination of strong arrivals of crude oil at US ports and an increase in production from refineries following the recovery after hurricanes Gustav and Ike.

Graph 40: US weekly commercial crude oil stocks



Crude oil stocks rose 11.6 mb to hit 312 mb, the highest level since last April, moving above the five-year average and the same month last year for the first time this year. However, the build took place despite an increase of 1.6 mb/d in refinery intake implying that the main reason behind the increase was strong imports which averaged more than 10.2 mb/d compared with 8.6 mb/d in the previous month where refineries and port installations were affected by hurricanes.

Following a draw of 43 mb in September, US product inventories jumped 27 mb in October on the back of a surge of around 10 percentage points in refinery runs. This pushed product inventories to 686 mb. Within products, gasoline inventories were the main contributor to the build with 16.5 mb. This returned gasoline stocks to within the five-year range to stand at around 196 mb. With the exception of September, gasoline inventories have been following a normal trend since the beginning of the year, although coming from very high levels in the first quarter. Gasoline stocks are expected to continue their seasonal trend and increase further. Similarly, distillate stocks gained more than 5 mb to stand at nearly 128 mb, which corresponds to 2% below the five-year average. Meanwhile, residual fuel increased 1.5 mb to 38.9 mb to remain comfortable while jet fuel inched up 0.1 mb to 36.7 mb, still not yet able to recover from hurricane disruptions.

The Strategic Petroleum Reserve (SPR) dropped a further 1.2 mb to 702 mb in the aftermath of the hurricanes following the decision of the Department of Energy to release crude in the form of loans.

According to the latest data for the week-ending 7 November, US commercial oil stocks increased by 1.2 mb to stand slightly below 1,000 mb. Crude oil stocks remained almost stable for the second consecutive week while gasoline stocks continued to recover from low September levels and rise for the third consecutive week. However, crude oil inched up just 0.02 mb to remain at around 312 mb since mid-October, which corresponds to slightly below the five-year average (*see **Graph 40***). Nevertheless, at 312 mb, crude oil stocks are at their highest level since late May. Gasoline stocks added a further 2 mb to stand at 198 mb, the highest level since early August and corresponding to the five-year average. In contrast, middle distillate inventories have been increasing for the fourth consecutive week and added a further 0.5 mb to move above the average of the previous five-years for the first time since end-August.

However, despite the strong drop due to the hurricanes, US commercial oil inventories are very comfortable when compared to expected demand. Days of forward cover of all the main components (crude oil, gasoline, distillates) stand above the five-year average. Crude oil stocks represent the equivalent of 21.3 days, gasoline 21.9 days and distillates 32.2 days (*see **Graph 41***).

Graph 41: US weekly forward cover (crude oil)

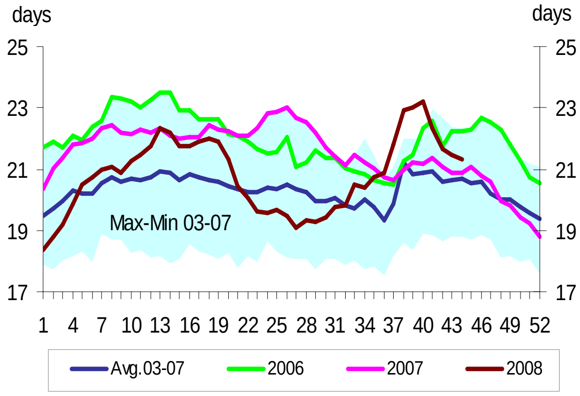


Table 29: US onland commercial petroleum stocks, mb

	Aug 08	Sep 08	Oct 08	Change Oct 08 /Sep 08	Oct 07	07 Nov 08 *
Crude oil	301.5	300.3	311.9	11.6	307.2	311.9
Gasoline	194.9	179.6	196.1	16.5	198.6	198.1
Distillate fuel	132.5	122.7	127.9	5.2	134.4	128.4
Residual fuel oil	38.6	37.4	38.9	1.5	38.8	39.0
Jet fuel	40.8	36.6	36.7	0.1	41.7	36.8
Total	**1,003.2**	**959.3**	**998.2**	**38.9**	**1,013.5**	**999.2**
SPR	707.2	703.0	701.8	-1.2	694.1	701.8

**/ Latest available data at time of report's release.*

Source: US Department of Energy's Energy Information Administration.

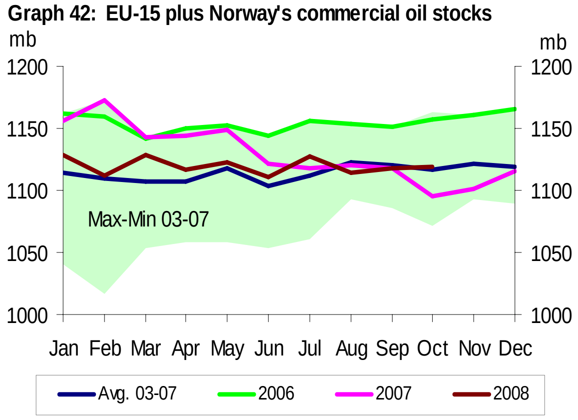
Western Europe

EU-15 plus Norway oil stocks are comfortable at the five-year average

European (EU-15 plus Norway) total oil stocks followed a normal seasonal trend, increasing a further 1.7 mb to approach 1,120 mb, which corresponds to the average of the previous five years. However, compared to a year earlier, oil stocks displayed a surplus of almost 24 mb or 2.2% (*see **Graph 42***), mainly attributable to crude oil.

Although inventories are at the five-year average in absolute numbers, they are very comfortable in terms of forward demand cover due to weak demand expectations.

Graph 42: EU-15 plus Norway's commercial oil stocks



Crude oil inventories rose 2.6 mb to stand at 475 mb, in line with the five- year average. Stocks would have increased further if Caspian exports had not been disrupted. Also arbitrage opportunities to US markets prevented inventories from increasing more.

Table 30: Western Europe's oil stocks, mb

	Aug 08	Sep 08	Oct 08	Change Oct 08/Sep 08	Oct 07
Crude oil	461.0	472.1	474.7	2.6	476.4
Mogas	124.9	121.6	121.0	-0.7	121.8
Naphtha	27.3	28.2	29.9	1.8	28.7
Middle distillates	383.4	378.8	377.8	-1.0	356.9
Fuel oils	117.8	116.7	115.8	-1.0	111.6
Total products	653.3	645.3	644.4	-0.9	619.0
Total	**1,114.3**	**1,117.4**	**1,119.1**	**1.7**	**1,095.4**

Source: Argus, Euroilstock.

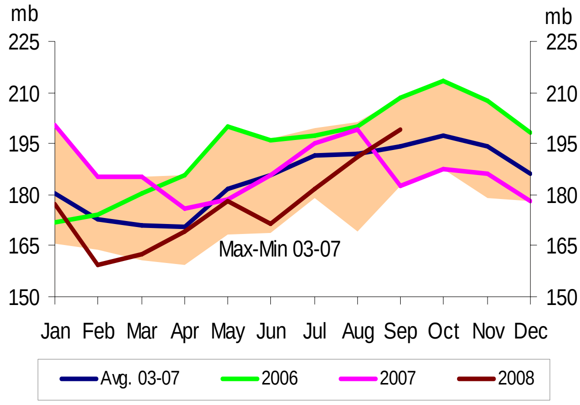
In contrast, product inventories fell a minor 1 mb, mainly due to lower production from refineries. Contrary to the seasonal trend, gasoline continued its downward trend, falling 0.7 mb to move below the lower end of the five-year range, to hit 121 mb, the lowest level in a year. Low gasoline stocks are due to lower refinery output on the back of poor margins and weak demand. The situation of European gasoline inventories was exacerbated by export opportunities to US markets to replace lost production from the refineries affected by the hurricanes. Distillate stocks dropped 1 mb, but despite this draw remained comfortably above the five-year average and the level of last year as well. However, the impact of strong demand for heating oil from Germany by distillate inventories was offset by growing imports from Russia and Asia-Pacific. Arbitrage opportunities to Singapore pushed residual fuel stocks down 1 mb but they remained well above the corresponding level of the previous year. Naphtha inventories added a further 1.8 mb to approach 30 mb, the highest level since last April.

Japan

Japan's total commercial inventories increased further to stand at the upper end of the five-year range

In Japan, commercial oil stocks increased for the third consecutive month adding almost 8 mb to approach 200 mb in September, the highest level in more than a year (*see **Graph 43***). However, it should be noted that the build was the sixth this year. Inventories have dropped only in January and June this year. At 199 mb, Japanese commercial stocks are above the five-year average and well above last year's level and are very comfortable when expressed in terms of forward demand cover due to the prolonged sluggish demand.

Graph 43: Japan's commercial oil stocks



Contrary to the previous month, crude oil was the main contributor to the build. More than 7 mb, representing 90% of the build, were added to crude oil stocks to move above 107 mb, the highest level since August 2007. This massive increase in crude oil stocks took place despite a drop in imports and was driven by low refinery runs, which fell more than 10 percentage points in September to hit the second-lowest level so far this year. With this build, crude oil stocks have now moved within the five-year range.

Table 31: Japan's commercial oil stocks*, mb

	Jul 08	Aug 08	Sep 08	Change Sep 08/Aug 08	Sep 07
Crude oil	106.0	100.3	107.3	7.1	96.6
Gasoline	12.6	14.4	12.9	-1.5	11.2
Naphtha	10.8	11.8	13.8	1.9	11.9
Middle distillates	33.6	43.1	44.3	1.2	42.6
Residual fuel oil	18.9	21.4	20.6	-0.8	20.3
Total products	75.8	90.8	91.6	0.9	86.1
Total**	**181.9**	**191.0**	**199.0**	**7.9**	**182.7**

* *At end of month.*
** *Includes crude oil and main products only.*
Source: *METI, Japan.*

Due to refinery cuts on the back of weak margins and demand, product inventories rose just 1 mb compared to a significant 15 mb in the previous month. Nevertheless, product stocks remained very comfortable at the top of the five-year range. Within products, both gasoline and distillate inventories are in line with the five-year average and are very comfortable when expressed in terms of forward cover due to the weaker demand. Gasoline stocks lost 1.5 mb to stand at almost 13 mb while distillates rose by 1.2 mb to 44.3 mb, the highest level since January 2007.

Japanese commercial oil inventories continued their upward trend in October according to preliminary data. More than 7 mb would have been added with crude oil contributing with more than 60%. As a result, Japan's commercial oil stocks are at their highest level since late 2006 and at the top of the five-year range.

Balance of Supply and Demand

Estimate for 2008

Demand for OPEC crude in 2008 to decline by 430 tb/d to 31.8 mb/d

The demand for OPEC crude in 2008 is estimated to average 31.8 mb/d a decrease of 430 tb/d over the 2007 figure. On a quarterly basis, the demand for OPEC crude is estimated at 32.5 mb/d 31.0 mb/d 31.8 mb/d and 32.1 mb/d respectively.

Table 32: Summarized supply/demand balance for 2008, mb/d

	2007	1Q08	2Q08	3Q08	4Q08	2008
(a) World Oil Demand	**85.90**	**86.68**	**85.42**	**85.28**	**87.39**	**86.19**
Non-OPEC Supply	49.43	49.69	49.75	48.72	50.42	49.65
OPEC NGLs and non-conventionals	4.21	4.47	4.67	4.77	4.89	4.71
(b) Total Supply excluding OPEC Crude	**53.64**	**54.17**	**54.43**	**53.50**	**55.32**	**54.35**
Difference (a-b)	**32.26**	**32.51**	**30.99**	**31.78**	**32.07**	**31.84**
OPEC crude oil production [(1)]	30.97	32.07	32.10	32.38		
Balance	-1.29	-0.44	1.11	0.60		

(1) Selected secondary sources.
Totals may not add due to independent rounding.

Forecast for 2009

Demand for OPEC crude in 2009 to drop by 910 tb/d to 30.9 mb/d

Demand for OPEC crude in 2009 is forecast to average 30.9 mb/d a decline of around 910 tb/d compared with the 2008 figure. On a quarterly basis, the required OPEC crude is expected to average 31.2 mb/d 30.2 mb/d 30.3 mb/d and 32.0 mb/d respectively.

Table 33: Summarized supply/demand balance for 2009, mb/d

	2008	1Q09	2Q09	3Q09	4Q09	2009
(a) World Oil Demand	**86.19**	**87.12**	**85.74**	**85.77**	**88.09**	**86.68**
Non-OPEC Supply	49.65	50.81	50.30	49.98	50.48	50.39
OPEC NGLs and non-conventionals	4.71	5.13	5.24	5.47	5.61	5.36
(b) Total Supply excluding OPEC Crude	**54.35**	**55.94**	**55.54**	**55.45**	**56.09**	**55.76**
Difference (a-b)	**31.84**	**31.18**	**30.20**	**30.32**	**32.00**	**30.92**

Totals may not add due to independent rounding.

Graph 44: Balance of supply and demand

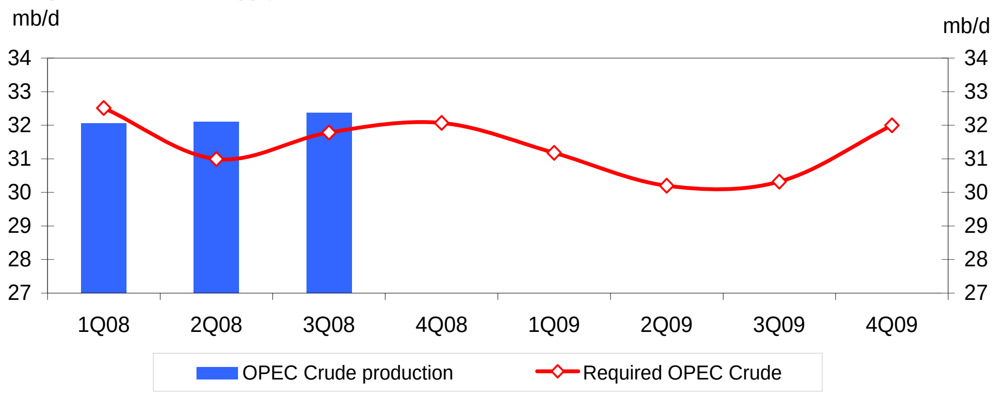


Table 34: World oil demand/supply balance, mb/d

	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009
World demand														
OECD	49.4	49.8	49.6	49.2	48.9	47.2	46.9	49.0	48.0	48.3	46.5	46.3	48.6	47.4
North America	25.4	25.6	25.4	25.5	24.8	24.5	24.0	24.7	24.5	24.4	24.0	23.6	24.4	24.1
Western Europe	15.5	15.7	15.7	15.3	15.2	14.9	15.3	15.6	15.3	15.1	14.7	15.2	15.6	15.2
Pacific	8.5	8.6	8.5	8.3	8.9	7.8	7.5	8.7	8.2	8.8	7.8	7.5	8.7	8.2
DCs	21.8	22.6	23.3	24.2	24.8	25.2	25.1	25.2	25.1	25.4	25.8	25.8	25.8	25.7
FSU	3.8	3.9	3.9	4.0	4.0	3.9	4.2	4.4	4.1	4.0	3.9	4.3	4.5	4.2
Other Europe	0.9	0.9	0.9	0.9	1.0	1.0	0.9	0.9	1.0	1.1	1.0	0.9	0.9	1.0
China	6.5	6.7	7.2	7.6	8.0	8.2	8.1	7.8	8.0	8.4	8.6	8.5	8.2	8.4
(a) Total world demand	82.5	83.9	84.9	85.9	86.7	85.4	85.3	87.4	86.2	87.1	85.7	85.8	88.1	86.7
Non-OPEC supply														
OECD	21.3	20.5	20.2	20.1	20.0	20.0	19.2	20.0	19.8	20.2	19.7	19.5	19.9	19.8
North America	14.6	14.1	14.2	14.3	14.3	14.4	13.7	14.3	14.2	14.5	14.2	14.3	14.4	14.3
Western Europe	6.2	5.7	5.4	5.2	5.2	5.0	4.9	4.9	5.0	4.9	4.7	4.5	4.7	4.7
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.8	0.7	0.8	0.8	0.8	0.8	0.8
DCs	10.5	10.8	10.9	10.9	11.1	11.1	11.1	11.5	11.2	11.5	11.5	11.7	11.7	11.6
FSU	11.1	11.5	12.0	12.5	12.6	12.7	12.4	13.0	12.7	13.1	13.0	12.7	12.9	12.9
Other Europe	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.5	3.6	3.7	3.8	3.8	3.9	3.8	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Processing gains	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total non-OPEC supply	48.4	48.5	48.9	49.4	49.7	49.8	48.7	50.4	49.6	50.8	50.3	50.0	50.5	50.4
OPEC NGLs + non-conventional oils	3.9	4.1	4.1	4.2	4.5	4.7	4.8	4.9	4.7	5.1	5.2	5.5	5.6	5.4
(b) Total non-OPEC supply and OPEC NGLs	52.3	52.5	52.9	53.6	54.2	54.4	53.5	55.3	54.4	55.9	55.5	55.4	56.1	55.8
OPEC crude oil production (secondary sources)	30.6	31.6	31.4	31.0	32.1	32.1	32.4							
Total supply	82.9	84.2	84.4	84.6	86.2	86.5	85.9							
Balance (stock change and miscellaneous)	0.4	0.3	-0.5	-1.3	-0.4	1.1	0.6							
OECD closing stock levels (*mb*)														
Commercial	2538	2585	2668	2574	2567	2603	2649							
SPR	1450	1487	1499	1524	1530	1529	1520							
Total	3988	4072	4167	4098	4097	4131	4169							
Oil-on-water	905	958	916	945	936	929	n.a.							
Days of forward consumption in OECD														
Commercial onland stocks	51	52	54	54	54	56	54							
SPR	29	30	30	32	32	33	31							
Total	80	82	85	85	87	88	85							
Memo items														
FSU net exports	7.3	7.7	8.1	8.5	8.7	8.8	8.2	8.5	8.5	9.0	9.1	8.4	8.3	8.7
(a) - (b)	30.1	31.3	32.0	32.3	32.5	31.0	31.8	32.1	31.8	31.2	30.2	30.3	32.0	30.9

Note: Totals may not add up due to independent rounding.

n.a. Not available.

Table 35: World oil demand/supply balance: changes from last month's table † , mb/d

	2004	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009
World demand														
OECD	-	-	-	-	-	-	-0.5	-0.6	-0.3	-0.3	-0.2	-0.6	-0.8	-0.5
North America	-	-	-	-	-	-	-0.3	-0.6	-0.2	-0.1	-0.1	-0.4	-0.6	-0.3
Western Europe	-	-	-	-	-	-	-	-	-	-0.1	-0.1	-	-0.1	-0.1
Pacific	-	-	-	-	-	-	-0.2	-	-0.1	-	-	-0.2	-	-0.1
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	0.1	-	-	-	-	0.1	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-0.1	-	-	-	-	-0.1	-	-
(a) Total world demand	-	-	-	-	-	-	-0.4	-0.6	-0.3	-0.4	-0.3	-0.6	-0.8	-0.5
World demand growth	***-***	***-***	***-***	***-***	***-***	***0.01***	***-0.43***	***-0.63***	***-0.26***	***-0.39***	***-0.33***	***-0.18***	***-0.17***	***-0.27***
Non-OPEC supply														
OECD	-	-	-	-	-	-	-0.1	-0.2	-	-0.2	-0.1	-0.1	-0.1	-0.1
North America	-	-	-	-	-	-	-	-0.1	-	-0.1	-0.1	-	-	-0.1
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	0.1	-	-	-	-	-0.1	-0.1	-0.1	-0.1
FSU	-	-	-	-	-	-	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	0.1	0.1	-0.2	-0.3	-0.1	-0.3	-0.3	-0.4	-0.4	-0.3
Total non-OPEC supply growth	***-***	***-***	***-***	***-***	***0.06***	***0.11***	***-0.20***	***-0.33***	***-0.09***	***-0.35***	***-0.37***	***-0.15***	***-0.02***	***-0.22***
OPEC NGLs + non-conventionals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	0.1	0.1	-0.2	-0.3	-0.1	-0.3	-0.3	-0.4	-0.4	-0.3
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-							
Total supply	-	-	-	-	0.1	0.1	-0.2							
Balance (stock change and miscellaneous)	-	-	-	-	-	0.1	0.2							
OECD closing stock levels (*mb*)														
Commercial	-	-	-	-	-	-1	-							
SPR	-	-	-	-	-	-	-							
Total	-	-	-	-	-	-1	-							
Oil-on-water	-	-	-	-	-	-	-							
Days of forward consumption in OECD														
Commercial onland stocks	-	-	-	-	-	0.6	-							
SPR	-	-	-	-	-	-	-							
Total	-	-	-	-	-	0.9	-							
Memo items														
FSU net exports	-	-	-	-	-	-	-0.2	-0.1	-0.1	-	-	-0.3	-0.2	-0.2
(a) - (b)	-	-	-	-	-	-0.1	-0.2	-0.3	-0.2	-0.1	-0.1	-0.3	-0.4	-0.2

† This compares Table 34 in this issue of the MOMR with Table 32 in the October 2008 issue.
This table shows only where changes have occurred.

Table 36: OECD oil stocks and oil on water at the end of period

	2003	2004	2005	2006	2007	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08
Closing stock levels *mb*																								
OECD onland commercial	2,511	2,538	2,585	2,668	2,574	2,458	2,538	2,572	2,538	2,533	2,612	2,627	2,585	2,585	2,648	2,758	2,668	2,598	2,659	2,655	2,574	2,567	2,603	2,649
North America	1,161	1,193	1,257	1,277	1,231	1,145	1,193	1,206	1,193	1,201	1,275	1,254	1,257	1,240	1,277	1,351	1,277	1,238	1,294	1,285	1,231	1,215	1,242	1,254
Western Europe	915	915	934	963	938	913	925	936	915	942	915	942	934	937	935	948	963	943	940	941	938	960	953	959
OECD Pacific	435	430	394	428	404	400	420	430	430	389	422	432	394	408	436	459	428	417	426	429	404	392	408	436
OECD SPR	1,411	1,450	1,487	1,499	1,524	1,423	1,429	1,435	1,450	1,462	1,494	1,494	1,487	1,487	1,493	1,495	1,499	1,507	1,506	1,520	1,524	1,530	1,529	1,520
North America	640	678	687	691	699	654	664	672	678	690	698	696	687	688	690	690	691	691	692	695	699	702	708	705
Western Europe	374	377	407	412	421	371	366	367	377	376	401	405	407	407	411	412	412	415	413	423	421	424	417	411
OECD Pacific	396	396	393	396	404	398	398	396	396	396	395	393	393	392	393	393	396	401	401	403	404	404	404	403
OECD total	3,921	3,988	4,072	4,167	4,098	3,881	3,967	4,006	3,988	3,995	4,106	4,121	4,072	4,072	4,141	4,253	4,167	4,105	4,166	4,176	4,098	4,097	4,131	4,169
Oil-on-water	882	905	958	916	945	906	891	894	905	934	931	926	958	962	971	972	916	914	907	934	945	936	929	n.a.
Days of forward consumption in OECD																								
OECD onland commercial	51	51	52	54	54	51	52	51	50	52	53	52	51	53	54	55	54	54	54	53	53	54	56	54
North America	46	47	49	50	50	46	47	47	47	47	50	49	50	49	50	53	50	49	51	50	50	50	52	51
Western Europe	59	58	60	63	61	60	60	59	58	61	58	60	58	61	60	60	63	63	61	60	62	64	62	61
OECD Pacific	51	50	46	51	49	51	51	49	45	48	52	49	42	52	55	52	48	53	54	49	46	50	54	50
OECD SPR	29	29	30	30	32	30	29	28	28	30	30	30	29	31	30	30	30	31	31	31	31	32	33	31
North America	25	27	27	27	29	26	26	26	26	27	27	27	27	27	27	27	27	27	27	27	28	29	29	29
Western Europe	24	24	26	27	28	25	24	23	24	25	26	26	25	27	26	26	27	28	27	27	28	28	27	26
OECD Pacific	46	46	46	47	49	50	49	45	42	49	49	45	42	50	49	45	44	51	51	46	46	52	54	46
OECD total	79	80	82	85	85	81	81	79	78	82	83	82	80	84	84	85	84	85	85	84	84	87	88	85

n.a. Not available.

Table 37: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2004	2005	2006	Change 06/05	1Q07	2Q07	3Q07	4Q07	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08
USA	7.65	7.34	7.36	0.02	7.46	7.58	7.41	7.54	7.50	0.14	7.64	7.75	7.22	7.57	7.54	0.05	7.80	7.75	7.74	7.90	7.80	0.25
Canada	3.07	3.03	3.20	0.17	3.34	3.24	3.36	3.34	3.32	0.12	3.33	3.45	3.39	3.45	3.40	0.09	3.49	3.44	3.48	3.58	3.50	0.09
Mexico	3.83	3.77	3.69	-0.08	3.58	3.59	3.45	3.33	3.49	-0.21	3.29	3.18	3.13	3.24	3.21	-0.28	3.17	3.03	3.03	2.96	3.05	-0.16
North America	14.56	14.14	14.24	0.11	14.38	14.41	14.22	14.20	14.30	0.06	14.25	14.38	13.74	14.27	14.16	-0.14	14.46	14.21	14.26	14.44	14.35	0.19
Norway	3.19	2.97	2.78	-0.19	2.72	2.46	2.48	2.57	2.56	-0.22	2.51	2.39	2.37	2.45	2.43	-0.13	2.40	2.30	2.15	2.34	2.30	-0.13
UK	2.10	1.89	1.71	-0.18	1.79	1.75	1.49	1.72	1.69	-0.02	1.69	1.63	1.46	1.44	1.55	-0.13	1.46	1.41	1.33	1.32	1.38	-0.17
Denmark	0.39	0.38	0.34	-0.04	0.31	0.31	0.30	0.31	0.31	-0.04	0.28	0.28	0.29	0.32	0.29	-0.01	0.31	0.30	0.27	0.29	0.29	0.00
Other Western Europe	0.50	0.51	0.54	0.03	0.68	0.69	0.69	0.69	0.68	0.15	0.73	0.72	0.74	0.71	0.73	0.04	0.73	0.73	0.73	0.73	0.73	0.00
Western Europe	6.18	5.74	5.37	-0.37	5.50	5.20	4.95	5.29	5.23	-0.13	5.21	5.03	4.86	4.92	5.00	-0.23	4.90	4.74	4.48	4.68	4.70	-0.30
Australia	0.52	0.53	0.51	-0.02	0.51	0.54	0.54	0.51	0.53	0.02	0.47	0.53	0.54	0.66	0.55	0.03	0.66	0.64	0.66	0.65	0.65	0.10
Other Pacific	0.05	0.05	0.05	0.00	0.06	0.06	0.09	0.11	0.08	0.03	0.11	0.10	0.10	0.13	0.11	0.03	0.14	0.14	0.14	0.14	0.14	0.03
OECD Pacific	0.57	0.58	0.56	-0.02	0.57	0.61	0.63	0.61	0.60	0.04	0.58	0.63	0.64	0.79	0.66	0.06	0.80	0.78	0.80	0.79	0.80	0.13
Total OECD	21.31	20.45	20.17	-0.28	20.45	20.22	19.79	20.11	20.14	-0.03	20.04	20.04	19.25	19.98	19.83	-0.31	20.17	19.74	19.54	19.92	19.84	0.01
Brunei	0.21	0.21	0.22	0.01	0.20	0.18	0.19	0.19	0.19	-0.03	0.19	0.16	0.17	0.18	0.17	-0.02	0.18	0.18	0.18	0.18	0.18	0.00
India	0.79	0.76	0.79	0.03	0.82	0.81	0.81	0.82	0.82	0.02	0.83	0.81	0.82	0.82	0.82	0.00	0.81	0.79	0.82	0.84	0.82	0.00
Malaysia	0.79	0.77	0.76	-0.01	0.75	0.75	0.76	0.80	0.76	0.01	0.78	0.76	0.76	0.83	0.78	0.02	0.82	0.79	0.80	0.79	0.80	0.02
Thailand	0.25	0.30	0.32	0.02	0.33	0.34	0.34	0.34	0.34	0.02	0.34	0.35	0.35	0.35	0.35	0.01	0.36	0.36	0.36	0.36	0.36	0.01
Vietnam	0.42	0.39	0.37	-0.02	0.36	0.35	0.34	0.35	0.35	-0.02	0.34	0.31	0.30	0.43	0.35	0.00	0.42	0.42	0.45	0.46	0.44	0.09
Asia others	0.18	0.26	0.26	0.01	0.27	0.27	0.27	0.26	0.27	0.00	0.28	0.28	0.28	0.30	0.28	0.02	0.30	0.30	0.30	0.30	0.30	0.02
Other Asia	2.66	2.68	2.72	0.04	2.73	2.69	2.71	2.76	2.72	0.00	2.76	2.67	2.68	2.91	2.75	0.03	2.89	2.83	2.91	2.93	2.89	0.14
Argentina	0.80	0.78	0.77	0.00	0.77	0.77	0.76	0.75	0.76	-0.01	0.77	0.77	0.75	0.73	0.75	-0.01	0.72	0.71	0.70	0.69	0.71	-0.05
Brazil	1.80	1.98	2.11	0.12	2.15	2.15	2.16	2.14	2.15	0.04	2.25	2.28	2.32	2.42	2.32	0.17	2.49	2.53	2.60	2.58	2.55	0.24
Colombia	0.54	0.53	0.54	0.01	0.53	0.53	0.54	0.55	0.54	0.00	0.57	0.59	0.61	0.60	0.59	0.05	0.61	0.61	0.61	0.61	0.61	0.02
Trinidad & Tobago	0.16	0.18	0.18	0.00	0.16	0.16	0.16	0.15	0.16	-0.02	0.16	0.15	0.16	0.16	0.16	0.00	0.16	0.16	0.16	0.16	0.16	0.00
L. America others	0.26	0.30	0.26	-0.03	0.26	0.27	0.27	0.28	0.27	0.00	0.27	0.28	0.28	0.27	0.28	0.01	0.27	0.27	0.27	0.27	0.27	0.00
Latin America	3.55	3.77	3.86	0.09	3.88	3.88	3.88	3.88	3.88	0.02	4.02	4.06	4.11	4.17	4.09	0.21	4.25	4.28	4.34	4.31	4.29	0.20
Bahrain	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00
Oman	0.79	0.78	0.75	-0.03	0.73	0.72	0.71	0.70	0.71	-0.03	0.72	0.74	0.74	0.78	0.75	0.03	0.79	0.80	0.80	0.81	0.80	0.05
Syria	0.49	0.45	0.42	-0.03	0.41	0.40	0.40	0.39	0.40	-0.02	0.39	0.39	0.39	0.38	0.39	-0.01	0.37	0.37	0.37	0.37	0.37	-0.02
Yemen	0.41	0.41	0.37	-0.03	0.35	0.34	0.33	0.33	0.34	-0.04	0.31	0.31	0.30	0.29	0.30	-0.03	0.29	0.28	0.27	0.27	0.28	-0.03
Middle East	1.90	1.85	1.75	-0.10	1.69	1.67	1.65	1.63	1.66	-0.09	1.64	1.65	1.64	1.66	1.65	-0.01	1.65	1.66	1.66	1.66	1.66	0.01
Chad	0.16	0.18	0.16	-0.02	0.16	0.15	0.15	0.15	0.15	-0.01	0.15	0.15	0.15	0.14	0.15	-0.01	0.13	0.13	0.12	0.12	0.12	-0.02
Congo	0.24	0.24	0.25	0.01	0.25	0.23	0.24	0.25	0.24	0.00	0.26	0.26	0.26	0.29	0.27	0.02	0.30	0.32	0.35	0.37	0.33	0.07
Egypt	0.71	0.70	0.67	-0.02	0.64	0.63	0.63	0.63	0.63	-0.04	0.62	0.61	0.61	0.63	0.62	-0.01	0.62	0.61	0.61	0.60	0.61	-0.01
Equatorial Guinea	0.30	0.36	0.37	0.01	0.36	0.37	0.37	0.37	0.37	0.00	0.38	0.38	0.38	0.38	0.38	0.01	0.38	0.37	0.37	0.36	0.37	-0.01
Gabon	0.25	0.25	0.25	0.00	0.25	0.25	0.25	0.25	0.25	0.00	0.24	0.24	0.24	0.26	0.24	-0.01	0.26	0.27	0.27	0.27	0.27	0.02
South Africa	0.19	0.19	0.19	0.00	0.18	0.18	0.18	0.18	0.18	-0.01	0.17	0.17	0.17	0.17	0.17	-0.01	0.16	0.16	0.16	0.16	0.16	-0.01
Sudan	0.30	0.34	0.40	0.06	0.50	0.50	0.48	0.51	0.50	0.10	0.52	0.52	0.52	0.50	0.52	0.02	0.50	0.50	0.51	0.51	0.50	-0.01
Africa other	0.21	0.25	0.32	0.07	0.34	0.34	0.34	0.37	0.35	0.03	0.38	0.38	0.38	0.39	0.38	0.03	0.40	0.39	0.40	0.43	0.41	0.03
Africa	2.36	2.52	2.60	0.09	2.68	2.66	2.64	2.71	2.67	0.07	2.71	2.71	2.71	2.75	2.72	0.05	2.75	2.74	2.78	2.81	2.77	0.05
Total DCs	10.48	10.82	10.94	0.12	10.96	10.90	10.88	10.98	10.93	-0.01	11.13	11.10	11.15	11.50	11.22	0.29	11.54	11.51	11.68	11.70	11.61	0.39
FSU	11.14	11.55	12.02	0.47	12.51	12.45	12.50	12.62	12.52	0.50	12.62	12.66	12.40	12.95	12.66	0.14	13.06	13.02	12.73	12.86	12.92	0.26
Russia	9.19	9.44	9.65	0.21	9.87	9.83	9.89	9.87	9.87	0.22	9.78	9.74	9.81	10.00	9.83	-0.04	9.99	9.91	9.77	9.69	9.84	0.01
Kazakhstan	1.18	1.23	1.30	0.07	1.35	1.34	1.35	1.36	1.35	0.05	1.42	1.44	1.31	1.49	1.42	0.07	1.49	1.50	1.35	1.51	1.46	0.05
Azerbaijan	0.31	0.44	0.65	0.21	0.85	0.86	0.81	0.92	0.86	0.21	0.96	1.02	0.82	1.00	0.95	0.09	1.11	1.14	1.13	1.19	1.14	0.20
FSU others	0.47	0.44	0.42	-0.02	0.44	0.42	0.45	0.46	0.44	0.02	0.46	0.47	0.46	0.47	0.46	0.02	0.47	0.47	0.47	0.47	0.47	0.01
Other Europe	0.17	0.16	0.15	-0.01	0.15	0.15	0.15	0.14	0.15	-0.01	0.14	0.14	0.14	0.14	0.14	0.00	0.14	0.14	0.14	0.14	0.14	0.00
China	3.50	3.64	3.69	0.06	3.78	3.82	3.73	3.75	3.77	0.07	3.81	3.86	3.84	3.91	3.85	0.09	3.91	3.91	3.90	3.88	3.90	0.04
Non-OPEC production	46.60	46.61	46.98	0.36	47.85	47.53	47.05	47.59	47.50	0.53	47.74	47.80	46.77	48.47	47.70	0.19	48.83	48.32	47.99	48.50	48.41	0.71
Processing gains	1.83	1.86	1.90	0.04	1.92	1.92	1.92	1.93	1.92	0.02	1.95	1.95	1.95	1.95	1.95	0.03	1.98	1.98	1.98	1.98	1.98	0.03
Non-OPEC supply	48.43	48.48	48.88	0.40	49.77	49.45	48.97	49.52	49.43	0.55	49.69	49.75	48.72	50.42	49.65	0.22	50.81	50.30	49.98	50.48	50.39	0.74
OPEC NGL	3.73	3.91	3.93	0.02	3.94	4.12	4.21	4.21	4.12	0.20	4.37	4.57	4.67	4.79	4.60	0.47	5.02	5.13	5.29	5.43	5.22	0.62
OPEC Non-conventional	0.17	0.16	0.14	-0.02	0.08	0.08	0.09	0.10	0.09	-0.05	0.11	0.11	0.11	0.11	0.11	0.02	0.11	0.11	0.18	0.18	0.14	0.04
OPEC (NGL+NCF)	3.90	4.07	4.07	0.00	4.02	4.21	4.30	4.31	4.21	0.14	4.47	4.67	4.77	4.89	4.71	0.49	5.13	5.24	5.47	5.61	5.36	0.66
Non-OPEC & OPEC (NGL+NCF)	52.33	52.54	52.94	0.40	53.79	53.66	53.27	53.83	53.64	0.69	54.17	54.43	53.50	55.32	54.35	0.72	55.94	55.54	55.45	56.09	55.76	1.40

Note: Totals may not add up due to independent rounding.

Table 38: World Rig Count

	2004	2005	Change 05/04	1Q 06	2Q 06	3Q 06	4Q 06	2006	Change 06/05	1Q 07	2Q 07	3Q 07	4Q 07	2007	Change 07/06	1Q 08	2Q 08	Sep 08	3Q 08	Oct 08	Change Oct/Sep
USA	1,190	1,378	188	1,519	1,632	1,719	1,719	1,648	270	1,733	1,757	1,788	1,790	1,767	119	1,770	1,864	2,014	1,978	1,976	-38
Canada	369	490	121	665	282	494	440	470	-20	532	139	348	356	344	-126	507	169	435	432	446	11
Mexico	110	107	-3	85	85	77	84	83	-24	90	88	96	93	92	9	96	106	102	103	99	-3
North America	1,669	1,975	306	2,269	1,999	2,290	2,243	2,200	225	2,355	1,984	2,232	2,240	2,203	3	2,373	2,139	2,551	2,512	2,521	-30
Norway	17	17	0	19	20	16	9	16	-1	16	19	18	17	18	2	17	21	21	21	16	-5
UK	16	21	5	29	27	26	15	24	3	25	29	27	22	26	2	19	21	22	24	24	2
Western Europe	65	65	0	77	78	73	65	73	8	72	78	76	73	75	2	71	78	81	83	79	-2
OECD Pacific	22	25	3	25	28	25	28	27	2	24	30	32	30	29	2	32	39	41	39	36	-5
Total OECD	1,755	2,065	310	2,371	2,105	2,389	2,336	2,300	235	2,450	2,091	2,340	2,342	2,306	6	2,476	2,256	2,673	2,634	2,636	-37
Other Asia	126	142	16	153	150	156	152	153	11	158	157	151	150	154	1	149	154	154	155	147	-7
Latin America	116	129	13	137	151	153	153	149	20	183	178	173	181	178	29	181	181	204	181	207	3
Middle East	70	72	2	72	79	82	85	80	8	82	85	87	86	85	5	89	91	92	93	91	-1
Africa	51	54	3	59	62	68	77	67	13	75	80	88	88	83	16	84	90	103	97	96	-7
Total DCs	363	397	34	421	442	459	472	449	52	510	510	509	515	511	62	512	520	553	540	541	-12
Non-OPEC Rig Count	2,120	2,465	345	2,794	2,549	2,850	2,806	2,751	286	2,950	2,593	2,842	2,850	2,808	57	3,006	2,795	3,244	3,192	3,199	-45
Algeria	19	21	2	21	21	28	27	24	3	25	26	28	28	27	3	26	27	26	24	25	-1
Angola	3	3	0	4	4	4	4	4	1	5	4	3	5	4	0	5	6	4	5	2	-2
Ecuador	10	12	2	12	11	11	12	11	-1	12	10	11	10	11	0	7	9	14	12	13	-1
Indonesia	49	54	5	55	43	46	52	49	-5	49	56	60	64	57	8	64	67	60	65	64	4
Iran	41	40	-1	40	45	47	45	44	4	51	51	51	50	50	6	50	50	50	50	51	1
Iraq	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Kuwait	10	12	2	12	13	14	15	14	2	14	13	13	11	12	-2	12	11	12	12	13	1
Libya	10	9	-1	9	9	10	12	10	1	13	12	14	14	13	3	14	15	16	15	16	0
Nigeria	8	9	1	10	9	10	10	10	1	8	7	8	10	8	-2	9	8	7	6	6	-1
Qatar	9	12	3	13	10	11	9	11	-1	11	12	13	14	13	2	11	12	11	11	11	0
Saudi Arabia	32	36	4	54	60	70	76	65	29	76	76	78	77	77	12	78	77	76	76	77	1
UAE	16	16	0	17	16	16	16	16	0	14	15	15	14	14	-2	12	12	13	13	11	-2
Venezuela	55	67	12	78	83	85	77	81	14	76	80	77	71	76	-5	82	81	78	77	84	6
OPEC Rig Count	262	291	29	325	324	352	355	339	48	354	362	371	368	362	23	372	375	367	366	362	-5
Worldwid Rig Count*	2,382	2,756	374	3,119	2,873	3,202	3,161	3,090	334	3,304	2,955	3,213	3,218	3,170	80	3,378	3,170	3,611	3,558	3,561	-50
of which:																					
Oil	877	959	82	1,069	1,060	1,169	1,156	1,114	155	1,266	1,155	1,257	1,288	1,239	125	1,374	1,320	1,462	1,443	1,477	15
Gas	1,486	1,777	291	2,035	1,802	2,016	1,983	1,959	182	2,017	1,782	1,934	1,906	1,910	-49	1,970	1,819	2,109	2,079	2,047	-62
Others	20	22	2	14	13	18	21	16	-6	20	19	20	24	21	5	34	31	40	36	37	-3

**/Excludes China and FSU.*

na - Not available.

Source: Baker Hughes International & Secretariat's Estimates.

Note: Totals may not add up due to independent rounding.

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Data Summary

November 2008

OPEC Basket average price

US$ per barrel

⬇ down 27.69 in October

October 2008	69.16
September 2008	96.85
Year-to-date	103.98

October OPEC production

in million barrels per day, according to secondary sources

Algeria	1.40	SP Libyan AJ	1.74
Angola	1.88	Nigeria	2.00
Ecuador	0.50	Qatar	0.84
Indonesia	0.84	Saudi Arabia	9.22
IR Iran	3.88	UAE	2.56
Iraq	2.32	Venezuela	2.30
Kuwait	2.57	**TOTAL**	**32.04**

Supply and demand

in million barrels per day

2008		**2009**	
World demand	86.2	World demand	86.7
Non-OPEC supply	54.4	Non-OPEC supply	55.7
Difference	**31.8**	**Difference**	**30.9**

Non-OPEC supply includes OPEC NGLs and non-conventional oils.
Totals may not add due to independent rounding.

Stocks

OECD commercial oil stocks fell 17 mb in September due to hurricanes, but preliminary data show a strong build of 48 mb in October to reach 2,697 mb, implying 55 days of forward cover.

World economy

World GDP growth revised down to 3.7% in 2008 and 2.9% for 2009.

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Data cover period up to the end of October 2008 unless otherwise stated.