

10 August 2007

HIGHLIGHTS

- **Benchmark WTI reached a record high** of over \$78/barrel and moved into backwardation in July before falling back sharply on a combination of concerns over growth, unwinding of speculative positions and poor refining margins. High crude prices and increased refinery throughput further pressured already negative returns from marginal refineries in July, but these have subsequently recovered somewhat.
- **World oil supply is seen lagging demand** in July, despite a 1.1 mb/d monthly increase to 85.3 mb/d. However, monthly gains from non-OPEC producers could prove short-lived as maintenance and seasonal factors will likely reverse the July increase in August and September. Non-OPEC production estimates for 2007 and 2008 remain largely unchanged from last month's, at 50.0 mb/d and 51.0 mb/d, respectively.
- **July OPEC crude supply increased by 385 kb/d to 30.5 mb/d** reflecting the restart of previously shuttered Iraqi and Nigerian supply rather than a policy shift to meet 3Q07 and 4Q07 demand. OPEC has indicated that no change in production policy is likely ahead of the 11 September meeting, suggesting little change in delivered supply until 4Q07 at best. Effective spare capacity remains at just under 3.0 mb/d.
- **Forecast global oil product demand remains unchanged** at 86.0 mb/d in 2007 (+1.8% over 2006) and 88.2 mb/d in 2008 (+2.5%). A surge of demand for fuel oil, direct-burn crude and gasoil in Japan (linked to TEPCO's problems) and several Gulf countries has been largely offset by downward revisions in non-OECD Asia and the FSU.
- **A build of 13.3 mb in OECD industry stocks in June** lifted the 2Q07 increase to 67 mb or 0.73 mb/d - below the five-year average for this period. A counter-seasonal stock draw looks likely during 3Q07. Total OECD industry stock cover stood at 54.0 days at the end of June, 0.1 day lower than at end-May and 0.4 days below June 2006.
- **Global refinery crude throughput** is estimated at 73.3 mb/d in June, and is seen rising by 1.3 mb/d in July as scheduled and unscheduled maintenance comes to an end. August throughput has been revised lower to 75.1 mb/d, to reflect economic run cuts and higher non-OECD maintenance activity, primarily in China and the FSU.

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