

DEMAND

Summary

- **Global oil product demand** is expected to grow by 1.2 mb/d (1.4%) in 2006 to 84.8 mb/d. For 2007, demand should expand by 1.6 mb/d (1.8%) to 86.4 mb/d, based on a continued robust global economic outlook and the rebound of North American and non-OECD Asian demand. Nevertheless, this is well below the exceptional growth of 3.2 mb/d (4.0%) in 2004.

Global Oil Demand from 2005 to 2007

| | 1Q05 | 2Q05 | 3Q05 | 4Q05 | 2005 | 1Q06 | 2Q06 | 3Q06 | 4Q06 | 2006 | 1Q07 | 2Q07 | 3Q07 | 4Q07 | 2007 |
|---|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Demand (mb/d) | 84.6 | 82.4 | 83.2 | 84.1 | 83.6 | 84.9 | 83.3 | 84.7 | 86.3 | 84.8 | 86.7 | 84.9 | 86.1 | 87.7 | 86.4 |
| Annual Change (%) | 2.6 | 1.5 | 1.4 | -0.1 | 1.3 | 0.4 | 1.0 | 1.8 | 2.6 | 1.4 | 2.1 | 2.0 | 1.7 | 1.7 | 1.8 |
| Annual Change (mb/d) | 2.1 | 1.2 | 1.1 | -0.1 | 1.1 | 0.3 | 0.8 | 1.5 | 2.2 | 1.2 | 1.8 | 1.7 | 1.4 | 1.4 | 1.6 |
| Changes from last month's report (mb/d) | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.3 | 0.0 | -0.1 | -0.1 | | | | | |

- **OECD oil product demand** should expand by 0.1 mb/d (0.3%) in 2006 to 49.7 mb/d. For 2007, demand is expected to increase by 0.4 mb/d (0.8%) to 50.0 mb/d. North America will account for the bulk of demand growth, in part because temperatures were unusually mild in 1Q06. First quarter 2007 demand is expected to exceed the weather-affected 1Q06 baseline by some 800 kb/d. By contrast, as Europe was unusually cold in 1Q06, its oil product demand is forecast to decline by 250 kb/d in 1Q07.

Global Oil Demand by Region
(million barrels per day)

| | Demand | | Annual Change | | | Annual Change (%) | | |
|---------------|--------|-------|---------------|-------|------|-------------------|------|------|
| | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| North America | 25.62 | 26.01 | 0.09 | 0.16 | 0.39 | 0.3 | 0.6 | 1.5 |
| Europe | 16.18 | 16.18 | 0.01 | -0.01 | 0.00 | 0.0 | -0.1 | 0.0 |
| OECD Pacific | 8.59 | 8.60 | 0.10 | 0.00 | 0.01 | 1.2 | 0.0 | 0.1 |
| China | 7.03 | 7.42 | 0.17 | 0.41 | 0.39 | 2.6 | 6.1 | 5.5 |
| Other Asia | 8.90 | 9.14 | 0.16 | 0.10 | 0.23 | 1.8 | 1.2 | 2.6 |
| Subtotal Asia | 24.52 | 25.15 | 0.43 | 0.51 | 0.63 | 1.8 | 2.1 | 2.6 |
| FSU | 3.85 | 3.88 | 0.05 | 0.05 | 0.03 | 1.3 | 1.3 | 0.8 |
| Middle East | 6.47 | 6.81 | 0.32 | 0.33 | 0.34 | 5.6 | 5.4 | 5.3 |
| Africa | 2.95 | 3.02 | 0.08 | 0.07 | 0.07 | 3.0 | 2.4 | 2.4 |
| Latin America | 5.21 | 5.32 | 0.13 | 0.10 | 0.11 | 2.7 | 2.0 | 2.1 |
| World | 84.80 | 86.37 | 1.11 | 1.21 | 1.57 | 1.3 | 1.4 | 1.8 |

- **Non-OECD oil product demand** is projected to rise by 1.1 mb/d (3.2%) in 2006 to 35.1 mb/d. For 2007, demand is forecast to increase by 1.2 mb/d (3.4%) to 36.3 mb/d. China and the Middle East will continue to expand at a rapid pace, and non-OECD Asia will rebound from a relatively weak 2006. Recent increases to administered retail prices in key consuming counties in non-OECD Asia temporarily slowed oil product demand growth, but growth should return as the region's economies continue their rapid expansion. Overall, non-OECD demand will account for 75% of global demand growth in 2007.

Preliminary Inland Deliveries - May 2006¹

| | Gasoline | | Jet/Kerosene | | Diesel | | Other Gasoil | | RFO | | Other ² | | Total Products | |
|------------------|--------------|------------|--------------|------------|-------------|------------|--------------|-------------|-------------|-------------|--------------------|------------|----------------|------------|
| | mb/d | % pa | mb/d | % pa | mb/d | % pa | mb/d | % pa | mb/d | % pa | mb/d | % pa | mb/d | % pa |
| USA ³ | 9.33 | 0.8 | 1.66 | 6.0 | 2.99 | 1.0 | 1.09 | -0.8 | 0.78 | 8.2 | 5.2 | 13.4 | 21.00 | 4.3 |
| Mexico | 0.73 | 10.8 | 0.06 | 3.4 | 0.36 | 13.8 | 0.00 | na | 0.26 | -27.0 | 0.4 | 0.8 | 1.77 | 1.4 |
| Japan | 1.00 | 0.9 | 0.29 | -7.7 | 0.56 | 0.7 | 0.35 | -8.2 | 0.42 | 8.8 | 1.4 | -7.2 | 3.99 | -2.8 |
| Korea | 0.16 | -1.2 | 0.06 | 9.1 | 0.40 | 0.0 | 0.03 | -17.9 | 0.21 | -5.9 | 1.1 | 12.2 | 1.96 | 5.5 |
| France | 0.25 | -7.5 | 0.13 | 2.3 | 0.65 | 2.8 | 0.17 | -12.3 | 0.04 | 0.3 | 0.5 | -0.5 | 1.71 | -1.5 |
| Germany | 0.54 | -6.6 | 0.17 | -9.4 | 0.60 | 2.6 | 0.45 | 1.1 | 0.11 | 7.2 | 0.5 | 6.6 | 2.36 | 0.1 |
| Italy | 0.31 | -6.2 | 0.09 | 16.4 | 0.54 | 5.5 | 0.07 | -3.8 | 0.12 | -2.7 | 0.4 | -2.0 | 1.55 | 0.4 |
| Total | 12.31 | 0.6 | 2.46 | 3.2 | 6.10 | 2.3 | 2.16 | -3.1 | 1.94 | -0.6 | 9.4 | 7.4 | 34.33 | 2.5 |

Sources: US EIA, Mexico PEMEX, Japan METI, Korea KNOC, France CPDP, Germany MWV, Italy Ministry of Industry.

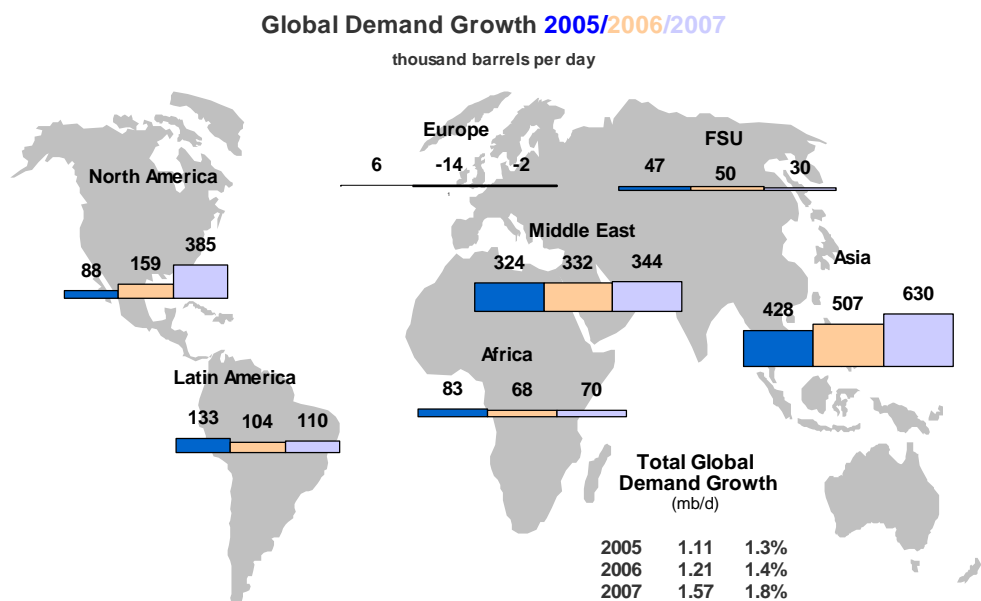
¹ Excludes refinery fuel and bunkers (except US).

² Includes direct use of crude oil.

³ Fifty states only. Diesel's share of total distillate is estimated.

Note: Monthly US demand data are subject to revision, as discussed in the Reports dated 13 July and 11 August 2005.

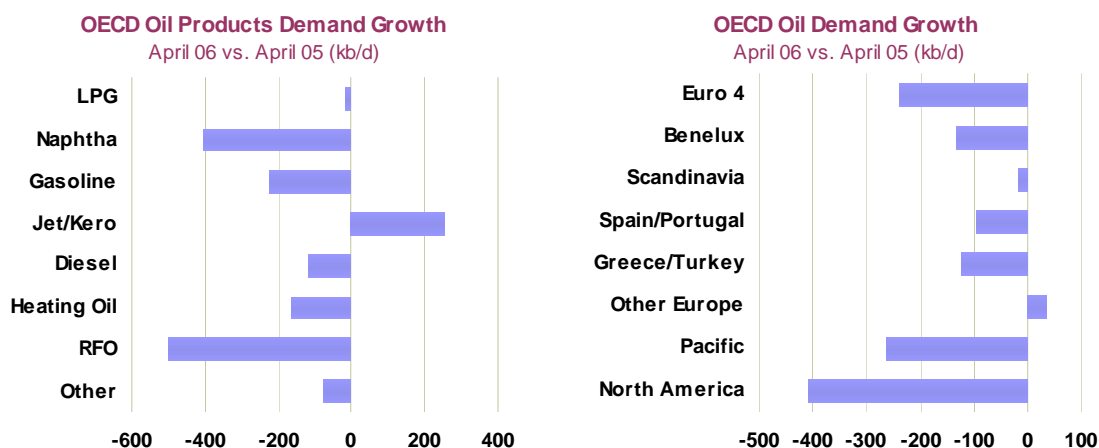
- **Under a regional comparison**, China will rise at the fastest pace (5.5%) in 2007, closely followed by the Middle East (5.3%). North America accounts for the largest share of oil product consumption, representing 30.1% of total world demand, compared with 8.6% for China and 7.9% for the Middle East. However, North America will account for only 25% of global demand growth in 2007, while China and the Middle East will account for almost half of global growth (46%).



OECD

Overview

Preliminary May 2006 inland delivery data suggest that North American demand was relatively buoyant, driven mostly by the US, where economic performance continues to exceed expectations (and to a lesser extent by Mexico). By contrast, oil product deliveries were relatively flat in major European countries – notably France, Germany and Italy – as a result of very weak gasoline demand and lower heating oil usage in line with relatively mild spring temperatures. In the Pacific, meanwhile, inland deliveries were reported to be quite weak in Japan but very strong in Korea.



Given changes to historical data – which affect the 2005 baseline – second quarter OECD demand has been revised down by 410 kb/d to 48.2 mb/d (-0.6% versus 2Q05). On the whole, 2006 demand is 200 kb/d lower than last month's *OMR*.

In 2007, OECD demand is expected to increase by 0.4 mb/d (0.8%). This projection is based on continued, relatively strong economic growth over the next year. Of course, this economic forecast – coming primarily from the IMF, the OECD and Consensus Economics – may be revised downwards as a result of growing economic imbalances and the lagged impact of high oil prices.

Total OECD Demand by Product

(million barrels per day)

| | 2005 | 2006 | 2Q05 | 3Q05 | 4Q05 | 1Q06 | Feb 06 | Mar 06 | Apr 06 | Latest month vs. | |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------------|--------------|
| | | | | | | | | | | Mar 06 | Apr 05 |
| LPG & Ethane | 4.69 | 4.66 | 4.31 | 4.31 | 4.73 | 4.99 | 5.24 | 4.80 | 4.40 | -0.41 | -0.02 |
| Naphtha | 3.21 | 3.19 | 3.13 | 3.24 | 3.09 | 3.18 | 3.26 | 3.05 | 2.86 | -0.19 | -0.41 |
| Motor Gasoline | 14.87 | 14.87 | 15.07 | 15.19 | 14.74 | 14.34 | 14.30 | 14.76 | 14.72 | -0.04 | -0.22 |
| Jet & Kerosene | 4.22 | 4.26 | 3.87 | 3.96 | 4.38 | 4.52 | 4.52 | 4.42 | 4.14 | -0.28 | 0.26 |
| Gas/Diesel Oil | 13.06 | 13.21 | 12.66 | 12.75 | 13.40 | 13.74 | 13.86 | 14.20 | 12.53 | -1.67 | -0.28 |
| Residual Fuel Oil | 4.45 | 4.31 | 4.23 | 4.30 | 4.48 | 4.66 | 4.73 | 4.57 | 3.85 | -0.71 | -0.50 |
| Other Products | 5.05 | 5.16 | 5.27 | 5.38 | 5.03 | 4.72 | 4.62 | 4.79 | 4.86 | 0.07 | -0.08 |
| Total Products | 49.53 | 49.66 | 48.54 | 49.13 | 49.86 | 50.15 | 50.53 | 50.60 | 47.37 | -3.23 | -1.25 |

Among the key fuels driving demand, diesel will continue to post relatively strong growth of 2.3% in 2007, down slightly from 2.9% in 2006. Jet fuel/kerosene demand should rise by 1.7% (compared to 1.0% in 2006), pulled upwards in part by the continued success of low-cost airlines. Meanwhile, gasoline demand will increase by only 0.4% in 2007 as growth is undermined by the dieselisation of the vehicle fleet in some areas, particularly Europe. Finally, demand for residual fuel oil will likely continue its long-term pattern of decline (-0.4% growth in 2007) as OECD countries broadly continue their switch to alternative fuels, including natural gas.

North America

US inland deliveries posted a year-on-year increase in May (4.3%), prompted by buoyant demand for jet fuel/kerosene (deliveries up by 6.0%) and residual fuel oil (8.2%). However, there are reasons to be cautious regarding the strength of US demand. Indeed, over the past few months preliminary US data have regularly been revised downwards. Most recently, April demand was revised down by 275 kb/d versus estimates based on preliminary data, with the largest revisions coming in LPG/ethane and 'other' products. Nonetheless, US gasoline consumption is expected to hold its ground during the driving season, growing by 1.3% year-on-year in 3Q06.

In Mexico, May inland deliveries grew by 1.4% versus year ago levels, reflecting strong economic performance in the second quarter of 2006. There is some concern that opposition protests following the closely fought presidential election will impinge upon current strong economic growth if demonstrations escalate.

For North America as a whole, second quarter 2006 demand now stands at 25.4 mb/d (+0.2% versus 2Q05). This is 100 kb/d lower than last month's *OMR*.

OECD North America Demand by Product

(million barrels per day)

| | 2005 | 2006 | 2Q05 | 3Q05 | 4Q05 | 1Q06 | Feb 06 | Mar 06 | Apr 06 | Latest month vs. | |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------------|--------------|
| | | | | | | | | | | Mar 06 | Apr 05 |
| LPG & Ethane | 2.80 | 2.83 | 2.55 | 2.58 | 2.81 | 2.98 | 3.13 | 2.91 | 2.69 | -0.22 | 0.13 |
| Naphtha | 0.45 | 0.43 | 0.48 | 0.50 | 0.30 | 0.36 | 0.37 | 0.36 | 0.34 | -0.02 | -0.16 |
| Motor Gasoline | 10.61 | 10.70 | 10.74 | 10.77 | 10.58 | 10.35 | 10.28 | 10.63 | 10.58 | -0.05 | -0.04 |
| Jet & Kerosene | 1.93 | 1.95 | 1.89 | 1.93 | 1.97 | 1.87 | 1.88 | 1.90 | 1.94 | 0.04 | 0.09 |
| Gas/Diesel Oil | 5.08 | 5.17 | 5.02 | 4.93 | 5.14 | 5.35 | 5.35 | 5.57 | 4.95 | -0.62 | -0.10 |
| Residual Fuel Oil | 1.57 | 1.45 | 1.46 | 1.61 | 1.62 | 1.44 | 1.35 | 1.46 | 1.19 | -0.27 | -0.31 |
| Other Products | 3.01 | 3.10 | 3.19 | 3.18 | 3.02 | 2.78 | 2.67 | 2.78 | 2.89 | 0.11 | -0.02 |
| Total Products | 25.46 | 25.62 | 25.34 | 25.50 | 25.43 | 25.13 | 25.03 | 25.60 | 24.57 | -1.03 | -0.41 |

In 2007, North American oil product demand is projected to rise by 0.4 mb/d (1.5%), driven in part by expectations of continued strong economic growth. Temperatures were also extraordinarily mild in 1Q06, contributing to a 440 kb/d (1.7%) year-on-year decline in North American demand. As a consequence, assuming normal weather patterns, demand growth should rebound (3.2%) in 1Q07.

On a product-by-product basis, US middle distillate demand will remain relatively strong in 2007. Diesel consumption is expected to increase by 2.3% and jet fuel/kerosene demand should rise by 1.7%, in line with strong economic performance. Residual fuel oil will reverse its steep 2006 fall (-9.6%) and grow by 3.6% in 2007. In general, US fuel oil demand is stagnant, but the first half of 2006 saw an unusually large drop in demand, as natural gas prices eased following mild temperatures, thereby discouraging fuel oil consumption.

Europe

Preliminary May 2006 inland delivery data for **Germany** and **Italy** show that oil product demand was relatively flat when compared to the same month of the previous year (0.1% and 0.4% growth, respectively). A pronounced decline in gasoline demand (-6.6% and -6.2%, respectively) was offset by strong gasoil/diesel demand growth (1.9% and 4.3%). **France's** inland deliveries, meanwhile, fell by 1.5%, in part due to much lower consumption of heating oil (-12.3%), driven by relatively mild temperatures.

OECD Europe Demand by Product

(million barrels per day)

| | 2005 | 2006 | 2Q05 | 3Q05 | 4Q05 | 1Q06 | Feb 06 | Mar 06 | Apr 06 | Latest month vs. | |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------------|--------------|
| | | | | | | | | | | Mar 06 | Apr 05 |
| LPG & Ethane | 1.00 | 0.97 | 0.90 | 0.91 | 1.04 | 1.08 | 1.15 | 1.03 | 0.89 | -0.14 | -0.04 |
| Naphtha | 1.18 | 1.16 | 1.14 | 1.15 | 1.21 | 1.17 | 1.19 | 1.16 | 1.08 | -0.08 | -0.11 |
| Motor Gasoline | 2.65 | 2.56 | 2.74 | 2.75 | 2.56 | 2.43 | 2.44 | 2.52 | 2.58 | 0.06 | -0.15 |
| Jet & Kerosene | 1.24 | 1.28 | 1.22 | 1.33 | 1.23 | 1.24 | 1.20 | 1.31 | 1.25 | -0.06 | 0.07 |
| Gas/Diesel Oil | 6.10 | 6.18 | 5.80 | 6.07 | 6.34 | 6.47 | 6.57 | 6.62 | 5.74 | -0.88 | -0.15 |
| Residual Fuel Oil | 1.82 | 1.82 | 1.78 | 1.70 | 1.80 | 2.06 | 2.17 | 2.03 | 1.67 | -0.36 | -0.14 |
| Other Products | 1.48 | 1.48 | 1.55 | 1.63 | 1.46 | 1.28 | 1.25 | 1.33 | 1.44 | 0.11 | -0.06 |
| Total Products | 15.48 | 15.45 | 15.14 | 15.55 | 15.64 | 15.73 | 15.97 | 16.00 | 14.65 | -1.35 | -0.58 |

Second-quarter 2006 OECD European demand averaged 14.9 mb/d (-1.5% versus 2Q05). This is 180 kb/d lower than last month's *OMR*, mostly because of large revisions to UK data.

Looking to 2007, OECD European demand is expected to decline slightly to 15.4 mb/d (-0.1%). Differences across countries will be driven in large part by disparities in economic growth, interfuel substitution and fuel efficiency. Despite these variations, common themes emerge, notably the continued trend towards further dieselisation of Europe's car fleet and the substitution of natural gas in place of fuel oil. As such, diesel demand is expected to grow significantly (2.7%), while gasoline demand should fall by 3.2%. Similarly, fuel oil consumption will decline by 1.9% in 2007 (provided no major droughts occur in Southern Europe, which could prompt higher fuel oil demand to compensate for limited hydropower generation).

Pacific

Preliminary inland delivery data suggest that **Japanese** demand declined by 2.8% year-on-year in May. This was in part due to weather-related factors: on the one hand, warmer-than-normal temperatures in northern Japan depressed heating oil usage; on the other, poor weather during most of the month spoiled the traditional Golden Week holiday, reducing gasoline consumption to abnormally low seasonal levels as many drivers chose to stay at home.

OECD Pacific Demand by Product

(million barrels per day)

| | 2005 | 2006 | 2Q05 | 3Q05 | 4Q05 | 1Q06 | Feb 06 | Mar 06 | Apr 06 | Latest month vs. | |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------|--------------|
| | | | | | | | | | | Mar 06 | Apr 05 |
| LPG & Ethane | 0.89 | 0.86 | 0.86 | 0.82 | 0.88 | 0.93 | 0.96 | 0.87 | 0.82 | -0.05 | -0.11 |
| Naphtha | 1.58 | 1.60 | 1.50 | 1.58 | 1.58 | 1.65 | 1.71 | 1.53 | 1.43 | -0.10 | -0.14 |
| Motor Gasoline | 1.61 | 1.62 | 1.59 | 1.66 | 1.61 | 1.56 | 1.58 | 1.60 | 1.56 | -0.04 | -0.04 |
| Jet & Kerosene | 1.04 | 1.02 | 0.75 | 0.70 | 1.19 | 1.42 | 1.45 | 1.21 | 0.95 | -0.25 | 0.10 |
| Gas/Diesel Oil | 1.87 | 1.86 | 1.84 | 1.75 | 1.91 | 1.92 | 1.93 | 2.01 | 1.83 | -0.18 | -0.03 |
| Residual Fuel Oil | 1.05 | 1.04 | 0.98 | 0.98 | 1.07 | 1.16 | 1.21 | 1.08 | 1.00 | -0.08 | -0.05 |
| Other Products | 0.55 | 0.59 | 0.53 | 0.57 | 0.55 | 0.67 | 0.69 | 0.68 | 0.53 | -0.15 | 0.00 |
| Total Products | 8.59 | 8.59 | 8.06 | 8.07 | 8.79 | 9.29 | 9.53 | 8.99 | 8.14 | -0.85 | -0.26 |

By contrast, **Korea's** inland deliveries surged by 5.5% in May 2006 compared to the same period in the previous year. This is in sharp contrast to the first four months of the year, where demand declined year-on-year. The May demand rebound can be attributed to two factors: first, a relatively weak May 2005 baseline and, second, strong naphtha demand growth (6.1%), mostly due to less intensive petrochemical plant maintenance than that observed in May 2005.

Second quarter 2006 OECD Pacific demand stands at 7.9 mb/d (-1.9% versus 2Q05), 140 kb/d below last month's *OMR*. With respect to 2007, OECD Pacific oil product demand should rise slightly to 8.6 mb/d (0.1% growth versus 2006). Japanese demand will continue to decline (-0.7%), in part due

to diminishing direct crude burning for power generation. By contrast, Korean demand may rebound (1.3%) from a very weak 2006 baseline, when demand declined by 0.1%.

Non-OECD

China

Preliminary indications suggest that China's apparent demand – defined as the sum of domestic refinery output and net product imports with adjustments for direct crude burning, smuggling and unreported refinery output – rose by 11% in May. This increase is driven by the country's continued strong economic performance and possibly by refiners' increased willingness to supply the market in anticipation of late May's rise in administered retail prices. The May 2005 baseline was also somewhat weak, so relatively strong growth had been anticipated.

China Demand by Product

| | Demand (thousand barrels per day) | | | Annual Change | | Annual Change (%) | |
|-----------------------|--------------------------------------|-------------|-------------|---------------|------------|-------------------|------------|
| | 2005 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 |
| | LPG & Ethane | 638 | 645 | 656 | 6 | 11 | 1.0 |
| Naphtha | 774 | 894 | 982 | 120 | 88 | 15.5 | 9.9 |
| Motor Gasoline | 1091 | 1177 | 1257 | 86 | 80 | 7.9 | 6.8 |
| Jet & Kerosene | 238 | 260 | 282 | 23 | 21 | 9.6 | 8.2 |
| Gas/Diesel Oil | 2127 | 2266 | 2407 | 139 | 141 | 6.5 | 6.2 |
| Residual Fuel Oil | 787 | 746 | 733 | -41 | -14 | -5.2 | -1.9 |
| Other Products | 966 | 1039 | 1101 | 74 | 62 | 7.6 | 6.0 |
| Total Products | 6621 | 7028 | 7418 | 407 | 390 | 6.1 | 5.5 |

Chinese apparent demand growth is projected to remain strong over the second half of 2006 and throughout 2007, with transportation fuels (which account for about 40% of total demand) rising by approximately 6-8%. Naphtha will also post robust demand growth of about 10%. By contrast, LPG and fuel oil consumption will be stagnant to declining year-on-year (1.9% and -1.6%, respectively, over the 18 month period). Both fuels are subject to interfuel substitution with high prices. Fuel oil should see less demand from electricity generation as China continues to add non-oil-fired power generation and transmission capacity.

China Crude & Product Trade

| | (thousand barrels per day) | | | | | | | | | | |
|----------------------------------|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------------------|------------|
| | 2004 | 2005 | 2Q2005 | 3Q2005 | 4Q2005 | 1Q2006 | Mar 06 | Apr 06 | May 06 | Latest month vs. Apr 06 | May 05 |
| Net Imports/(Exports) of: | | | | | | | | | | | |
| Crude Oil | 2346 | 2387 | 2541 | 2294 | 2407 | 2872 | 2697 | 2773 | 2684 | -89 | 278 |
| Products & Feedstocks | 661 | 480 | 375 | 445 | 599 | 512 | 553 | 659 | 554 | -105 | 402 |
| Gasoil/Diesel | 43 | -19 | -27 | -40 | -3 | -10 | -30 | -4 | -15 | -11 | 10 |
| Gasoline | -125 | -130 | -161 | -155 | -55 | -107 | -104 | -63 | -72 | -9 | 111 |
| Heavy Fuel Oil | 506 | 418 | 395 | 397 | 402 | 406 | 414 | 447 | 468 | 21 | 207 |
| LPG | 201 | 194 | 179 | 216 | 182 | 146 | 149 | 217 | 226 | 9 | 111 |
| Naphtha | -33 | -35 | -67 | -25 | 1 | -15 | -15 | -18 | -58 | -40 | -3 |
| Jet & Kerosene | 16 | 11 | 5 | 2 | 30 | 43 | 106 | 20 | 12 | -8 | 19 |
| Other | 52 | 41 | 51 | 49 | 42 | 49 | 33 | 60 | -7 | -67 | -53 |
| Total | 3008 | 2867 | 2916 | 2739 | 3006 | 3384 | 3250 | 3432 | 3237 | -194 | 681 |

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

Overall, China's apparent oil product demand is seen growing by 5.5% to 7.4 mb/d in 2007. There have been reports that the government is contemplating further increases to administered retail prices, with the possibility of a 15-20% increase by the end of the year, depending on the direction of international market prices. This could certainly temper demand growth. At the same time, some market participants have speculated that China may be filling its strategic storage, although there are no official pronouncements in this area.

Other Non-OECD

Based on preliminary data and estimates, **India** will post strong 2Q06 oil product demand growth (5.7%) compared to the same quarter in 2005, boosted by May's 8.7% year-on-year increase. The May spike was driven in large part by a surge in diesel and gasoline demand, which may be explained in part by the fact that retailers, motorists and farmers anticipated an early June hike in administered

prices, filling their tanks in advance. Diesel demand growth will likely be less vigorous during the rest of the year, although it will be supported seasonally by harvest-driven consumption, thus rising by 4.0% in 3Q06 and 3.5% in 4Q06. Crucially, LPG and kerosene prices were not altered. This is due to political and social considerations; in India, kerosene is considered as the 'fuel of the poor'.

With respect to 2007, India's oil product demand will increase by 2.8%, to 2.7 mb/d. It is worth noting that the spike in naphtha demand observed since March is likely to prove temporary, since naphtha is relatively expensive vis-à-vis natural gas, especially in fertilizer production. Therefore, naphtha demand is projected to decline by 3.8% next year (compared to a rise of 1.8% in 2006). For **Other Asia** as a whole, 2007 oil product demand should grow by 2.6% to reach 9.1 mb/d.

Regarding other regions, **Latin American** demand will rise by 0.1 mb/d (2.1%) in 2007, to 5.3 mb/d. Regional demand will be pushed by Brazilian growth of 2.4%, to 2.3 mb/d. Note that the success of Brazil's ethanol program helps explain why forecasts for gasoline and diesel demand growth are relatively weak (1.8% and 1.9%, respectively). However, it can be argued that some of the weakness is related to gasoline adulteration, which is obviously difficult to measure.

Furthermore, the **FSU's** 2007 apparent demand (the difference between crude production and net exports of crude and products) should remain relatively stagnant at 3.9 mb/d (+0.8%). By contrast, **Middle East** demand will grow by a very robust pace (5.3%) to 6.8 mb/d next year, as the region's economies benefit both from high oil prices – which have filled government coffers and hence allowed higher spending – and a demographic spur – as the region's population is mostly young and increasingly eager (and able) to consume.