

MIND OVER MARKET

Most of the input for oil market behaviour in December appears to be based on traders' psychology rather than physical supply/demand developments. This is not to say that the recent oil price weakness is "wrong", but only to point out that the support for the price movements has yet to appear in observed supply and demand. As discussed in this month's Demand section, recent data on Asian oil demand do not show the impact of economic difficulties there. Similarly, OPEC production in December was only slightly less than November's level, mainly due to the absence of Iraqi exports for most of the month. Tanker markets do not as yet indicate any surge in chartering from the Persian Gulf in the aftermath of OPEC's November quota increases for the first half of 1998. Further, non-OPEC supply growth in November and December was less robust than expected despite the start-up of a significant number of new fields, primarily in the North Sea; where steeper declines in mature fields continued and production from new fields rose relatively slowly.

World Oil Supply/Demand for the 4Q97 and Outlook for 1998

	Fourth Quarter 1997						1998 ^f		Annual %-Change
	October ^a		November ^b		December ^c		Level	Change	
	Level	Change	Level	Change	Level	Change			
World Demand	75.5	+1.5	74.6	-0.8	76.8	+2.2	75.3	+1.6	2.2%
OECD	42.7	+0.7	42.0	-0.7	44.1	+2.1	42.4	+0.5	1.1%
Non-OECD	32.8	+0.8	32.6	-0.2	32.7	+0.1	33.0	+1.1	3.6%
Non-OPEC Supply	45.1	+1.1	45.0	-0.1	45.5	+0.5	46.2	+1.8	4.1%
OECD	18.9	+0.6	18.8	-0.1	19.1	+0.3	19.2	+0.7	3.9%
Non-OECD	24.6	+0.2	24.6	0.0	24.7	+0.1	25.2	+1.0	4.3%
Processing Gains	1.6	+0.0	1.6	0.0	1.6	+0.0	1.7	+0.1	5.3%
OPEC NGLs	2.9	+0.0	2.8	-0.0	2.9	+0.0	2.9	+0.1	5.3%
Call on OPEC Crude + Stk Chg	27.5	+0.7	26.8	-0.7	28.5	+1.7	26.2	-0.3	-1.3%
OPEC Crude	28.2	+0.5	27.7	-0.6	27.6	-0.1			

^a month-to-month changes
^p preliminary

^e estimated
^f forecast

The effect of the Asian economic situation on oil demand may not appear for a few more months due to lags in economic systems and to hoarding of oil products and other goods. The difficult economic situation is expected to begin to affect oil demand significantly during 1998. In view of the probable slowdowns in economic growth and effects of declining currencies against the US dollar (in which crude oil is priced) a further 0.23 mb/d reduction has been made to the 1998 projection of global oil demand (a 0.10 mb/d reduction was made in the Report dated 7 November 1997). Those who are making larger adjustments point not only to further erosion in local situations, but also to spillover effects on other economies with similar debt and risk characteristics.

Data for November indicate that non-OPEC supply was slightly lower than in October, while OPEC crude production fell to 27.7 mb/d from over 28 mb/d in October, as Iraq slowed down exports to stay under the UN revenue ceiling. Iranian production also had a down month. In December, OPEC production was held to 27.6 mb/d by the absence of Iraqi exports after 4 December. Even so, OPEC crude production throughout 4Q97 has been substantially higher than the "call on OPEC oil + stock change" and appears to be moving substantially higher in January. The resumption of Iraqi exports (pumping began on 10 January but loadings had not resumed as of 13 January because contracts were only received that morning), increased quotas for the three Gulf producers with spare capacity (Saudi Arabia, Kuwait and the UAE) and new field developments in several other OPEC countries suggest higher current OPEC output. Non-OPEC supply is also expanding, by a projected 0.6 mb/d, in 1Q98 compared to 4Q97.

The price declines so far have embedded many, but possibly not all, of the impacts of negative factors. Although important, non-OPEC supply, non-Asian demand developments and non-Iraqi OPEC production levels have for now taken a secondary position to Asia and Iraq in the minds of oil market participants. The Asian situation will probably continue to evolve slowly, but a visit to Baghdad by UN chief weapons inspector Richard Butler in mid-to-late January could lead to rapid and unpredictable developments.