



EU - OPEC Energy Dialogue 5th Ministerial Meeting



Recent Oil Market Developments and Prospects

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Brussels

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- Current oil price dynamics
- Price levels not in conformity with present fundamentals
 - The US Dollar
 - The Futures markets
- Fundamentals
 - World economy
 - Demand prospects
 - Supply prospects
 - OECD commercial stocks
 - The refining sector
- OPEC capacity expansion
- Conclusion



Crude oil price movements: intense volatility

(US\$/bbl)

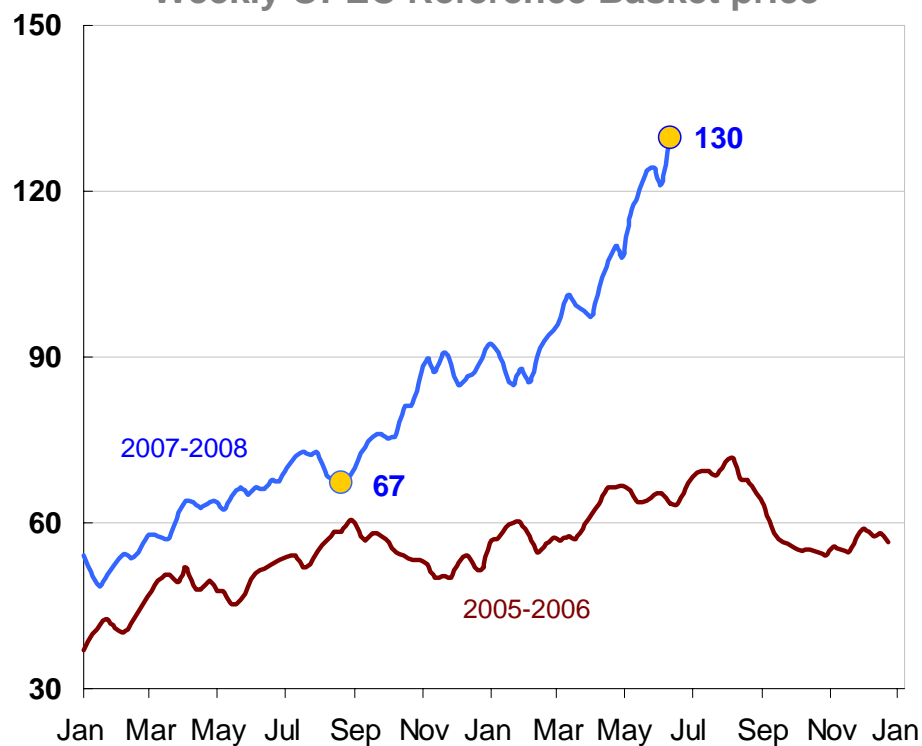


Major factors affecting the price movements:

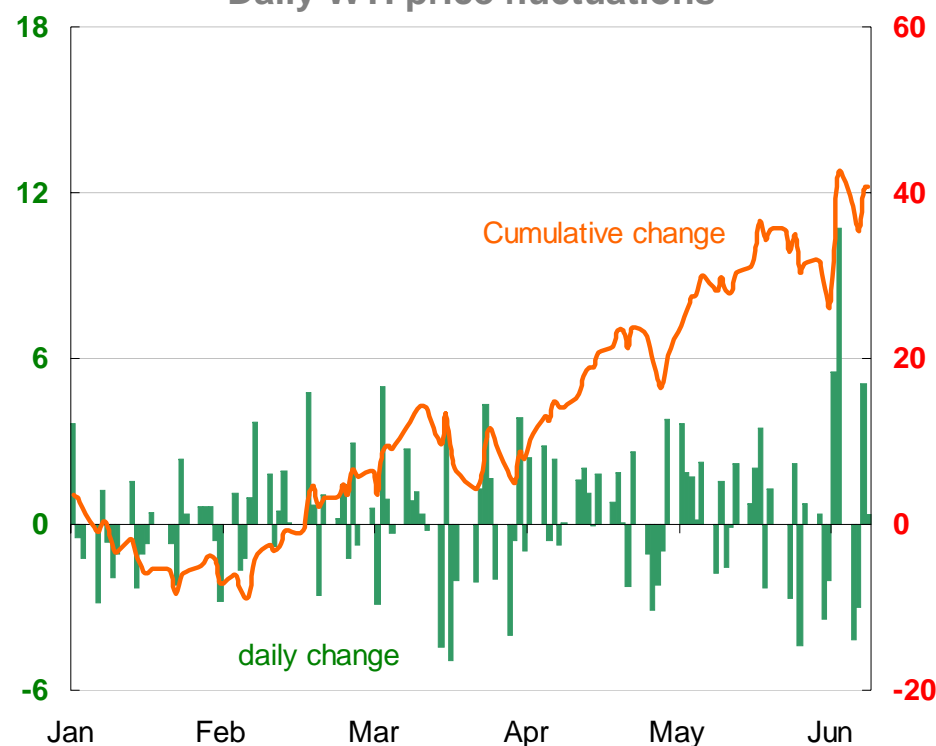
- Fund-driven price hike on back of weak dollar
- Increased financial market speculation
- Perceived market tightness
- Bottlenecks in refining sector
- Geopolitical concerns

	Daily price (US \$/b)		
	OPEC RB	Brent/D	WTI
19 Jun '08	129.44	131.50	131.95
22 Jan '08	83.70	87.80	89.06
22 Aug '07	66.6	67.4	69.33

Weekly OPEC Reference Basket price



Daily WTI price fluctuations



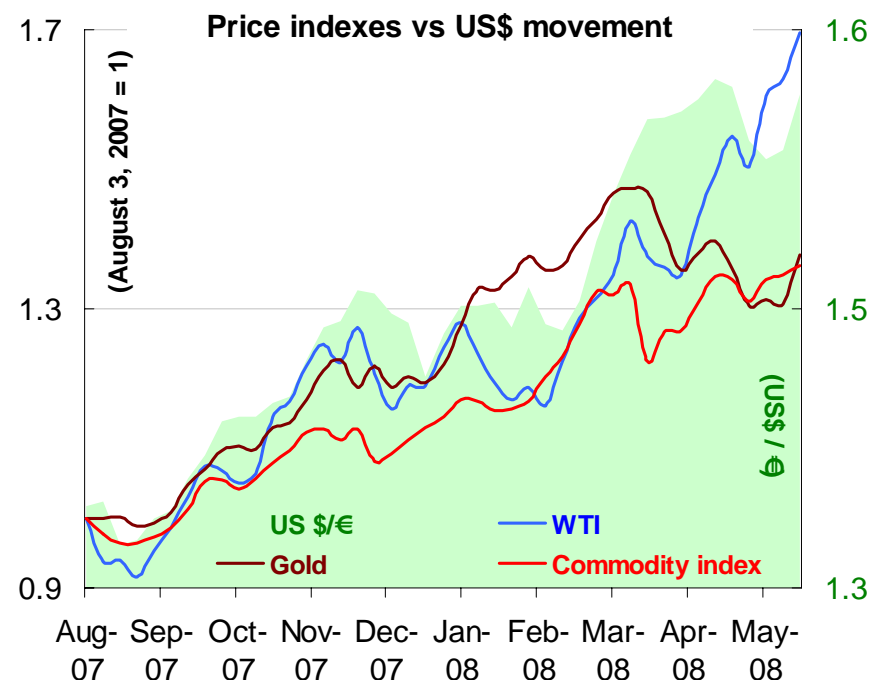
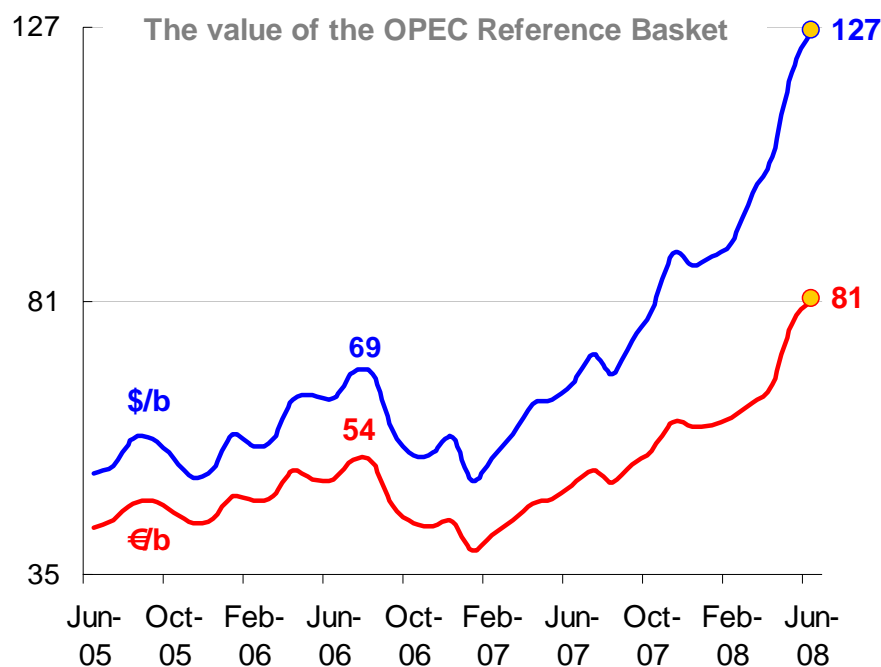


Weakened US Dollar vs. strength in crude, gold prices

(monthly and weekly average)



- Continued depreciation of the US \$ led to widened difference in the value of oil price denominated in US\$ and Euro
- Significant shift of capital in financial markets to commodities: high correlation between the US\$ movement & the gold, oil & other commodity prices
- “Wall of money” moving into commodities for inflation hedging



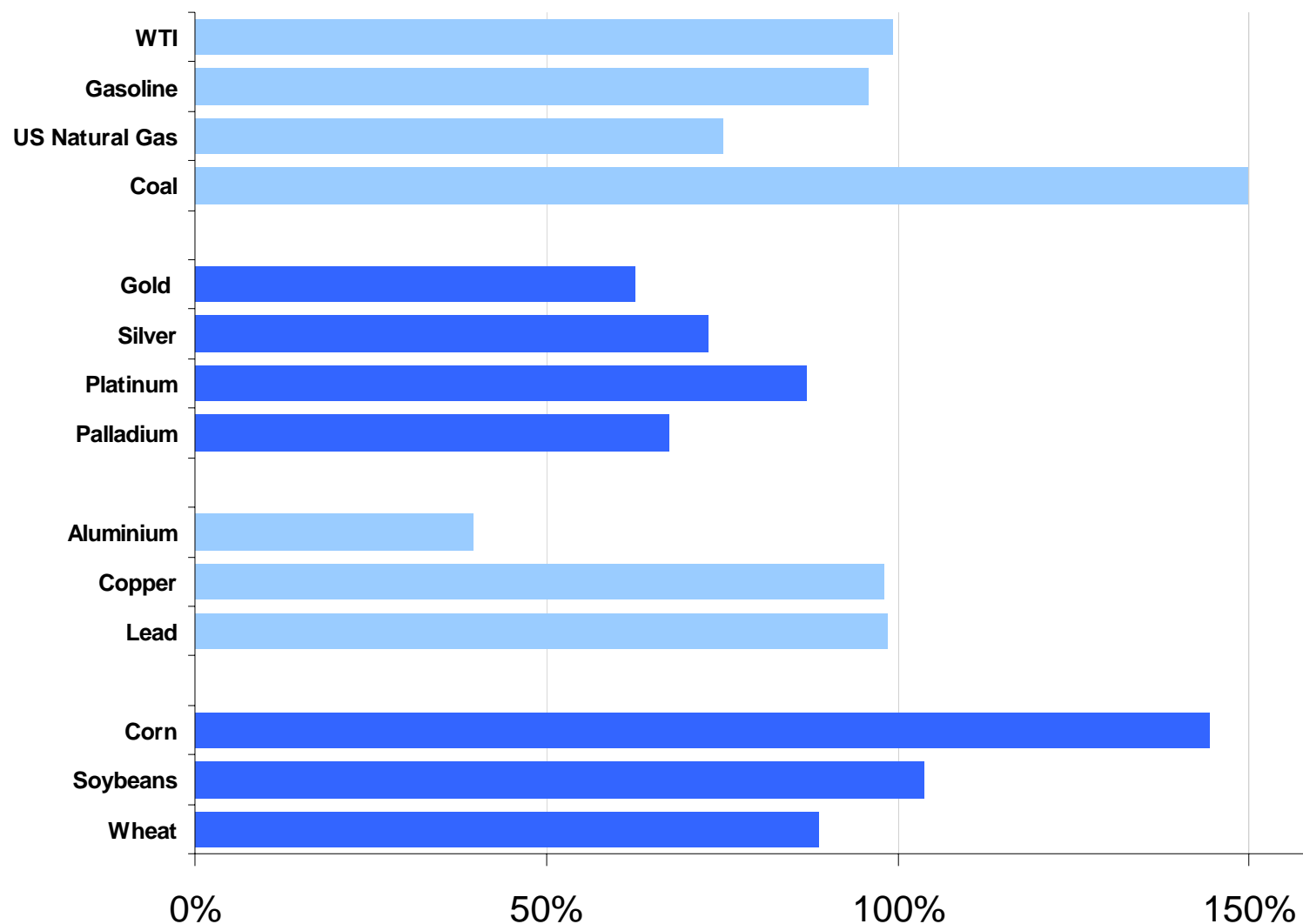


Significant increase in all commodity prices

% deviation of prices (20th June, 2008) from five-year average



- Overall price surge in all commodity groups: energy, precious & industrial metals, agriculture



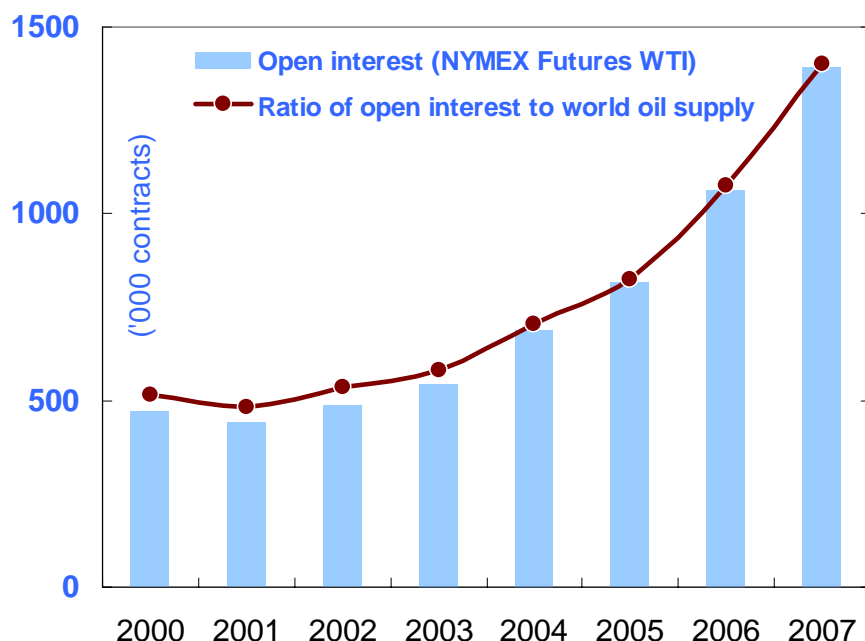


Increased inflow of funds into futures market

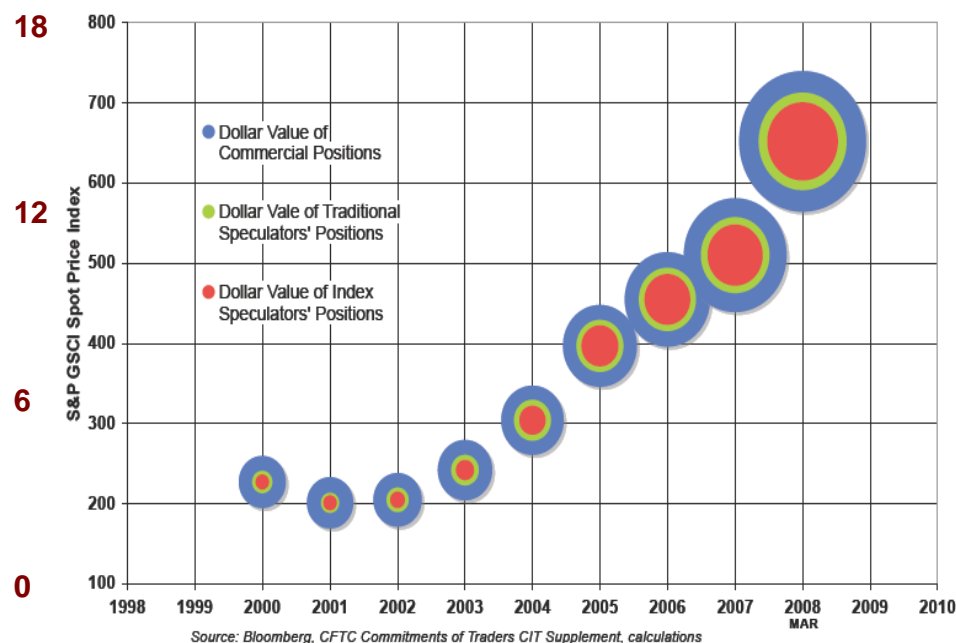


- Speculative flows continue to amplify the price moves, with technical momentum
- Index speculator demand is driving prices higher. Market expansion goes in tandem with price rise
- Market fundamentals are greatly disregarded.
- The current open interest for NYMEX WTI in futures alone reached more than 17 times the size of world oil supply.

Open interest in NYMEX futures for WTI



Commodity Futures market size



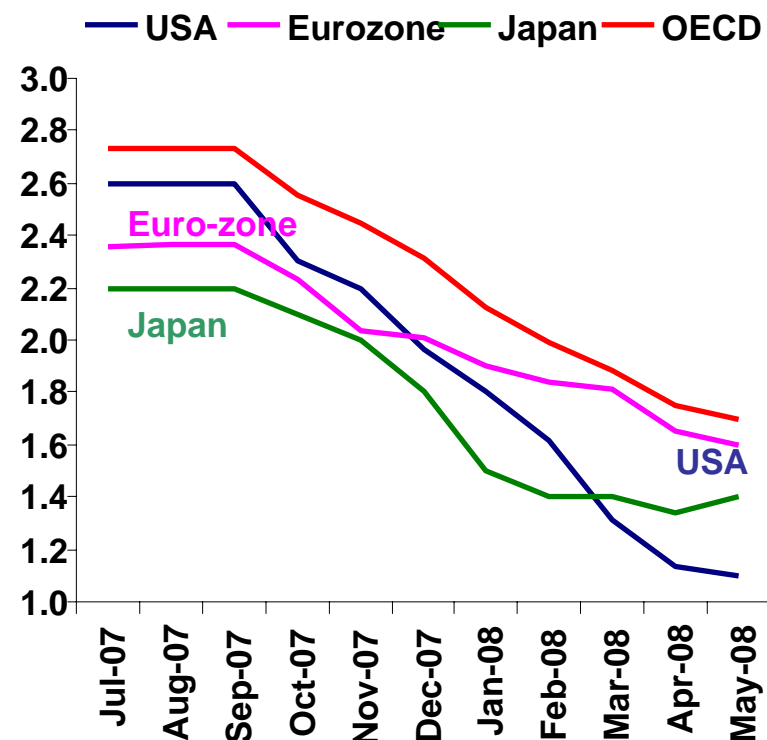
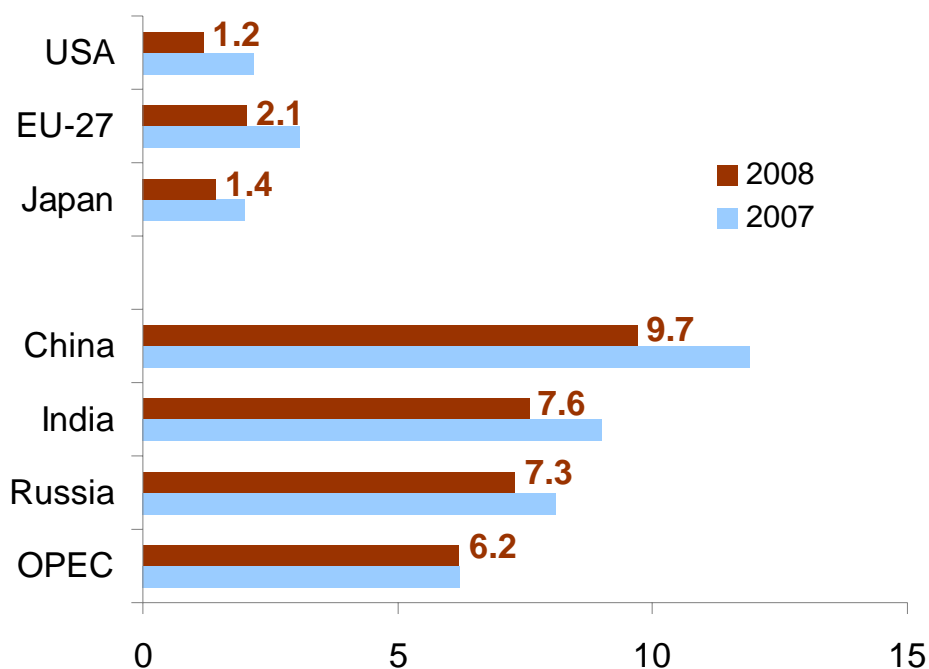
Source: M.W. Masters, Testimony before the Committee on Homeland Security and Governmental Affairs, U.S., May 20, 2008.

Performance of the world economy

(percentage change from previous year)



- Global economic growth is expected to be lower at 3.9% in 2008 from 4.9% in 2007
- Economic slowdown in all OECD regions (1.8%) in 2008: EU-27 (2.1%), Japan (1.4%), US (1.2%)
- Above-trend performances in DCs, but growth (5.8% in 2008) could be affected
- Downside risks (spill-over of the US economic downturn, impact of the credit-squeeze, higher inflation expectations).



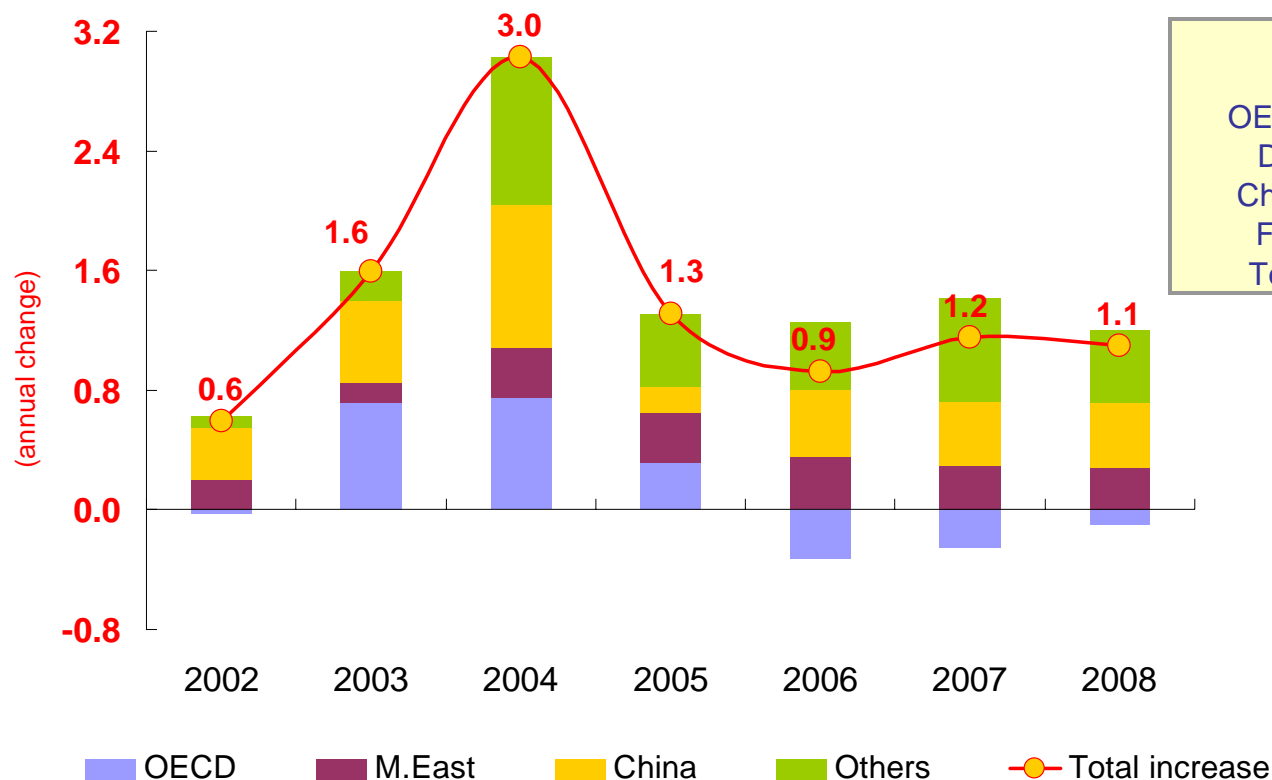


Global oil demand growth

year-on-year change, mb/d



- World oil demand growth for 2008 is forecast 1.1 mb/d, but downside revisions are likely.
- DCs oil demand growth together with China continue to stand above 1mb/d, while the OECD region experiences a contraction since 2006.



World oil demand (mb/d)				
	2002	2005	2008	('08-'02)
OECD	47.9	49.7	49.0	1.1
DCs	20.3	22.6	24.9	4.6
China	5.0	6.7	8.0	3.0
FSU	3.7	3.9	4.0	0.3
Total	77.8	83.7	86.9	9.1

World oil demand increase (annual average, mb/d)	
last five years	1.5
last ten years	1.2
last twenty years	1.1

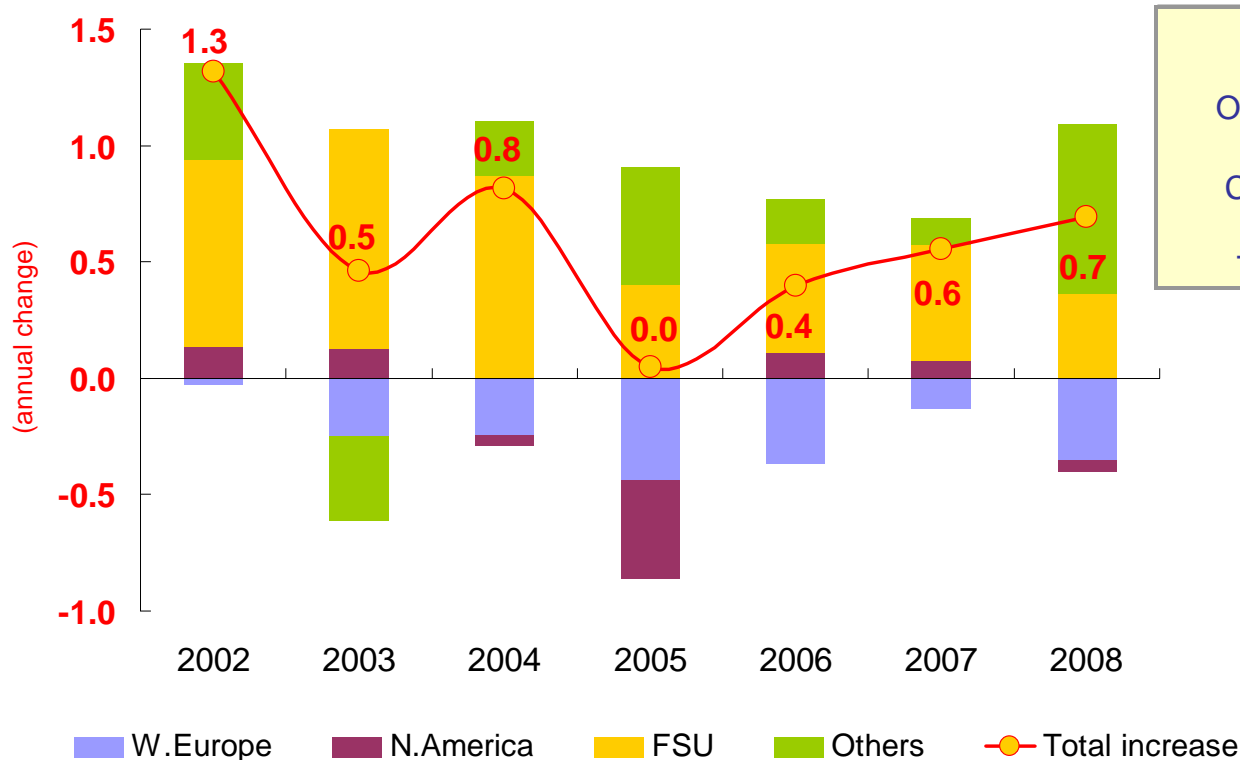


Non-OPEC supply growth

year-on-year change, mb/d



- The performance of non-OPEC supply set to keep its rising growth trend despite uncertainties (project delays).
- Major contributions are expected to come from Brazil, USA, Azerbaijan, Kazakhstan, Australia, and Russia.



	Non-OPEC supply (mb/d)			
	2002	2005	2008	('08-'02)
OECD	21.9	20.5	19.9	-2.0
DCs	10.6	10.8	11.4	0.8
China	3.4	3.6	3.9	0.5
FSU	9.3	11.5	12.9	3.6
Total	47.2	48.5	50.1	3.0

Non-OPEC supply increase (annual average, mb/d)	
last five years	0.5
last ten years	0.6
last twenty years	0.3

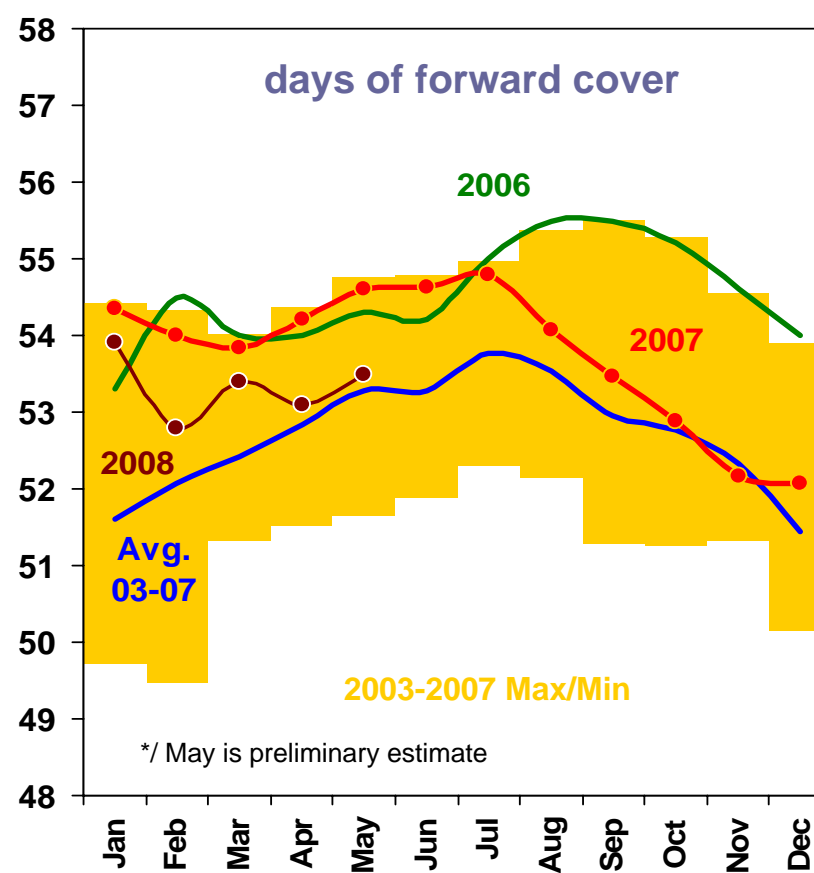
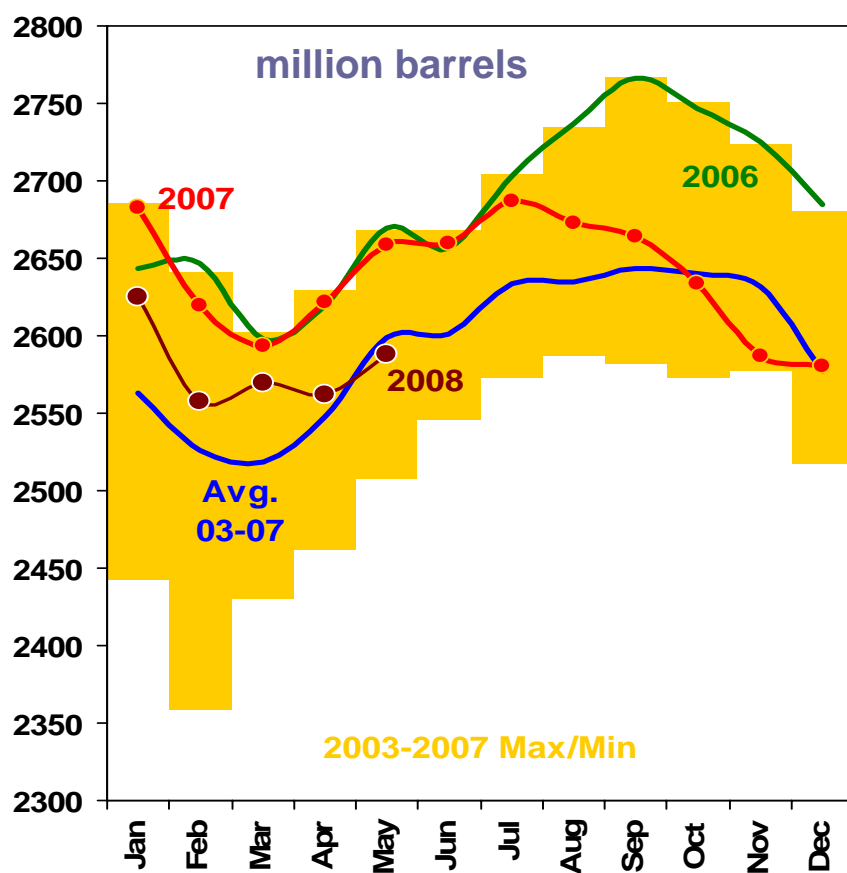


OECD commercial oil stocks

(up to end-May* 2008)



- Total OECD oil stocks end-May 2008 are estimated to stand at 2588 mb, in line with seasonal trend and around five-year average.
- Government-controlled stocks (SPR) at record levels (> 1530mb)
- Forward demand cover in May estimated at 53.5 days (vs. 53.3 days 5 yr avg.)

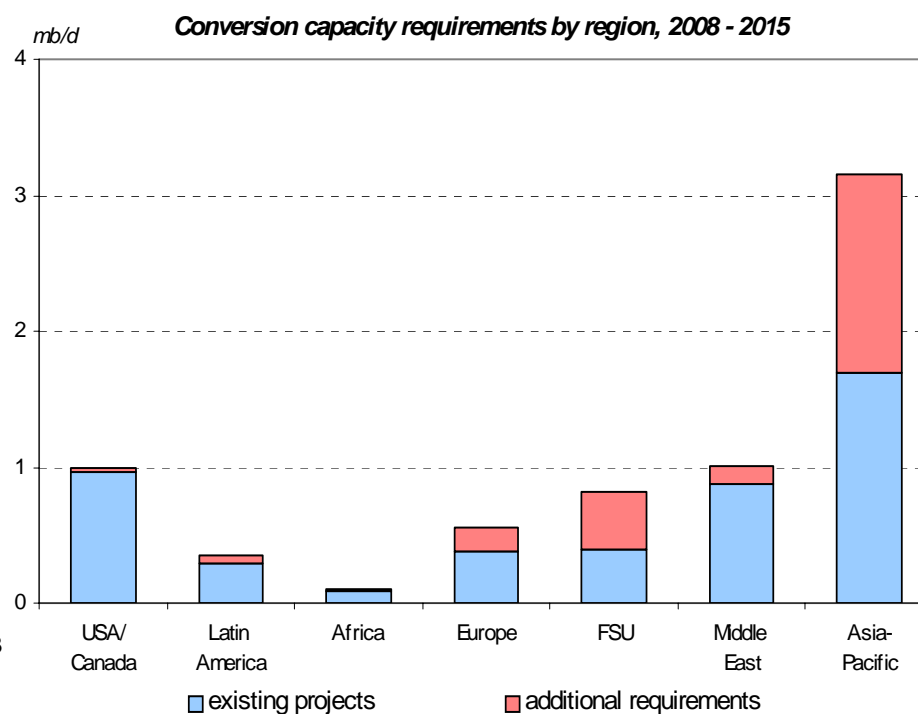
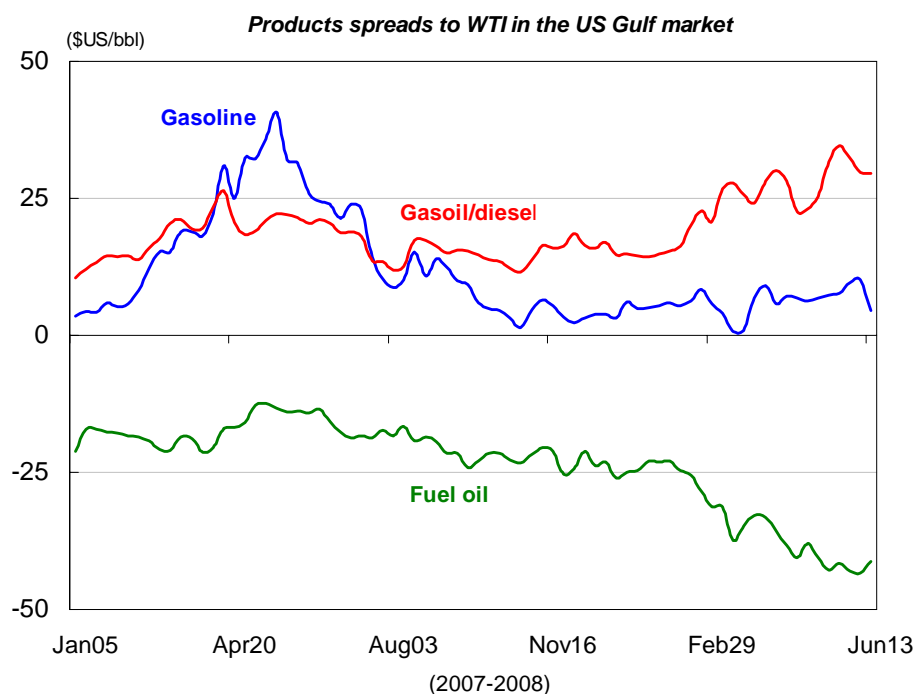




Pressure from strong distillates demand Conversion capacity is lagging behind...

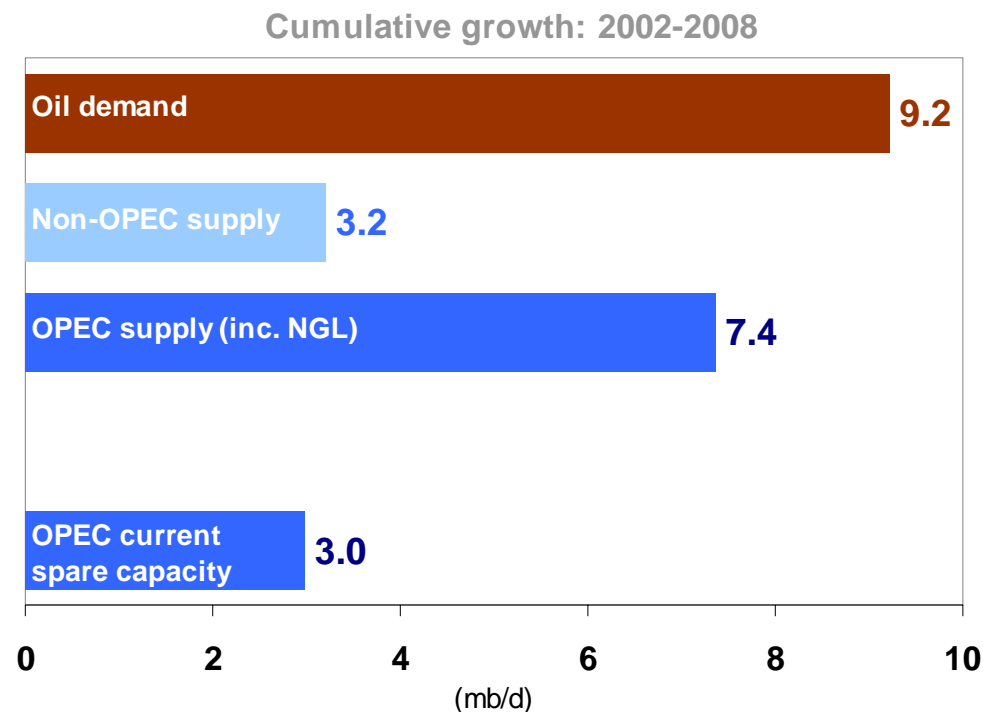


- **Ongoing tightness in the refinery system** (mismatch between the product demand pattern and the refinery configuration)
- **Strong growth in distillate demand outpace the expansion in conversion units** (increasing gasoil/diesel spreads)
- **Impact on crude oil market** (widening light & heavy crude differentials)
- **Conversion capacity expansion is critically important to avoid widening gap between supply and the strong distillates demand**





- Significant contributions to growth in global supply
- Further expansions in medium-term capacity (end 2012)



Upstream

- Over 120 projects
- Mix of light, medium, and some heavy grades
- > 50 projects involve IOC's
- Cumulative capex > \$160 billion
- Net capacity expected to increase 5.0 mb/d
- Production of other liquids to increase 1.5 mb/d

Downstream

- Expansions are underway
- New capacity:
(~ 2.5 mb/d refinery capacity)
- Investments close to \$50 billion



The current price levels are not in conformity with well supplied market, thus contradicting the underlying fundamentals

Strong influence of speculative drive is affecting the entire price curve and thereby posing a risk to market stability

Geopolitical concerns influencing the market perception is also a main factor in market volatility

- **Concerns about the US economy elevate downside risks to world economic growth**
- **The weak US currency encourage inflow of money into commodity markets**
- **The world oil demand growth is highly dependent on economic developments**
- **The supply prospects point to levels in excess of demand throughout the year**
- **OECD oil stocks are healthy standing around the five-year average**
- **Insufficient conversion capacity compounds the tightness in the refinery system**
- **OPEC capacity expansion plans are underway, but huge increases on costs as well as shortages in skilled labour continue to pose constraints on investments**



OPEC

Thank you



Stability in the oil market