

BMI Global Oil Market report Q410:Waiting for the wind to change

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Abstracts

Drifting With The Tide Q210 Oil Market Review Although Q2 started with encouraging oil market strength, this had largely dissipated by the end of the quarter. Little changed in terms of oil market fundamentals but there was a major shift in sentiment among investors and forecasters. Eurozone economic woes, China jitters and a general sense of macroeconomic fragility meant that oil prices were dragged lower with equities and currencies. Crude once again became a stock market proxy, with little enthusiasm for the commodity. Seemingly endless bad news from the Gulf of Mexico (GoM) hardly helped encourage oil market speculation, as BP's very public battle with US President Obama cast a shadow over future upstream developments and oil company prospects. None of this was actually negative in terms of near-term price prospects, but investors needed little excuse to avoid oil.

Demand projections for 2010 continued to firm up during the second quarter, even though the jury is still out regarding the strength and sustainability of the economic recovery. The imposition of 'tougher' sanctions by the UN against Iran failed to increase oil market tension.

Inventories have changed little and OPEC policy appears to be one of ignoring likely over-supply in the hope that it will go away without action being required. According to the International Energy Agency (IEA)'s July 2010 monthly Oil Market Report (OMR), OECD end-May commercial oil inventories stood at 2,757mn barrels (bbl), up 35mn bbl from the April level. This increase was broadly in line with the five-year average stock build, representing a relatively benign development.

More worrying, perhaps, is an estimated build of 3.5mn bbl in June, at a time when a draw of around 8.7mn bbl is usually expected. Crude stocks emerged lower, but this

improvement was outweighed by a products gain largely in the US.

In terms of production, the worrying OPEC output trend seen earlier in the year appears to have been reversed or, at least, stabilised. June saw global oil supply fall by more than 250,000 barrels per day (b/d) according to the IEA. OPEC and non-OPEC producers saw volumes fall during the month. Crude oil supply from OPEC averaged 28.9mn b/d in June (IEA estimate), down by 65,000b/d when compared with the previous month. Much of this reduction, however, reflects Iraqi cutbacks, with the 11 core members actually increasing supply by some 40,000b/d. Quota compliance of around 59% is now pretty stable and close to the historical OPEC norm.

Non-OPEC supply in Q2 has been fairly stable when compared with the first quarter, but has shown a clear weakening trend during the three months. Output of around 52.7mn b/d in April slipped to 52.4mn b/d in May and emerged still lower at around 52.2mn b/d in June. Among the major contributors to the June downturn were Norway and the US. Average Q210 non-OPEC supply is put at around 52.4mn b/d, compared with 52.5mn b/d in Q1.

Contents

Global Oil Market Review

Drifting With The Tide

Q210 Oil Market Review

Quarterly Trends

Chart: Consumption Patterns

Global Oil Demand Estimates Q210 (mn b/d)

Deepwater Turbulence

Chart: EIA In The Middle

Non-OPEC Supply Estimates Q210 (mn b/d)

Global Oil Market Outlook

Waiting For The Wind To Change

Q310 Oil Market Outlook

Chart: Long Way To Go

Iraqi Oil Production, Consumption And Exports

Oil Price Forecasts

Table: Crude Price Assumptions 2010

INDICATORS: BRENT (US\$/BB L), WTI (US\$/BB L), OPEC BASKET (US\$/BB L),
DUBAI (US\$/BB L)

Table: Oil Price Forecasts 2010-2014

INDICATORS: BRENT (US\$/BB L), URALS-MED (US\$/BB L), WTI (US\$/BB L), OPEC
BASKET (US\$/BB L), DUBAI (US\$/BB L)

Oil Supply And Demand Outlook Q310

Short-Term Demand Outlook

Forecasts To 2014

Table: Global Oil Consumption (000B/D)

INDICATORS: AFRICA, MIDDLE EAST, NW EUROPE, N AMERICA, ASIA/PACIFIC,
CENTRAL/EASTERN EUROPE, LATIN AMERICA, TOTAL, OECD, NON-OECD,
DEMAND GROWTH %, OECD%, NON-OECD %

Short-Term Supply Outlook

Forecasts To 2014

Table: Global Oil Production (000B/D)

INDICATORS: AFRICA, MIDDLE EAST, NW EUROPE, N AMERICA, ASIA/PACIFIC,
CENTRAL/EASTERN EUROPE, LATIN AMERICA, OPEC NGL ADJUSTMENT,
PROCESSING GAINS, TOTAL, OPEC, NON-OPEC, SUPPLY GROWTH %, OPEC%,
NON-OPEC %

Longer-Term Supply And Demand

Forecasts To 2019

Global Oil Products Market Review

Off Road: Gasoline/Diesel Trends

Q210 Products Review

Chart: Stepping On The Gas

Gasoline Prices 2008-2010

Chart: Tailing Off

US Vehicle Miles Travelled May 2010

Chart: Diesel Fuel Injection

Gasoil Prices 2008-2010

Too Much Wheel Spin

European Divergence

GM Leads The Pack

China Sales Down, Japan Up

Plane Talking: Jet Fuel Trends

Q210 Products Review

Passenger Traffic Back Above Pre-Recession Levels

Chart: LatAm Soars Above

Passenger Air Traffic Year-on-Year Growth May 2010 (%)

Surge In Air Freight Growth In May

Chart: Strongest Growth From LatAm And Africa

Air Freight Year-on-Year Growth May 2010 (%)

Global Oil Products Price Outlook

Stuck In Low Gear

Q310 Products Outlook

Table: Oil Product Price Assumptions 2010 (US \$/BBL)

INDICATORS: GASOLINE - ROTTERDAM PREMIUM UNLEADED, NY HARBOUR UNLEADED, SINGAPORE PREMIUM UNLEADED, GLOBAL AVERAGE

JET/KEROSENE - ROTTERDAM, NY HARBOUR, SINGAPORE, GLOBAL AVERAGE

GASOIL - ROTTERDAM, MEDITERRANEAN, SINGAPORE, GLOBAL AVERAGE

Revised Forecasts

Table: Oil Product Price Forecasts (US \$/BBL)

INDICATORS: GASOLINE - ROTTERDAM PREMIUM UNLEADED, NY HARBOUR UNLEADED, SINGAPORE PREMIUM UNLEADED, GLOBAL AVERAGE

JET/KEROSENE - ROTTERDAM, NY HARBOUR, SINGAPORE, GLOBAL AVERAGE

GASOIL - ROTTERDAM, MEDITERRANEAN, SINGAPORE, GLOBAL AVERAGE

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