IEA Short- and Medium-Term Market Outlook



Klaus Rehaag

Head, Oil Industry & Markets Division

Editor, Oil Market Report

International Energy Agency

Paris, France

klaus.rehaag@iea.org

Tokyo - November 2003

Overview

- Current Oil Market Assessment – short-term
- OPEC – Hitting The Wall (2Q2004)
- Oil market trends & developments – medium-term
- China - The Engine Of Demand Growth
- Russia – The Engine of Supply Growth
- Shifting Trade Patterns
- Anatomy of a supply disruption
- Miscellaneous-to-balance

IEA Short-Term Outlook





- Uncertainty over Iraqi supplies remains
- Geopolitical uncertainties remain - Russia, Iran, Saudi, Nigeria, Venezuela, Indonesia
- Strong economic growth in 2004?
- China growth outstanding, but will bubble burst?
- Winter mild so far
- Will OPEC cut in November, further tighten in 2004?





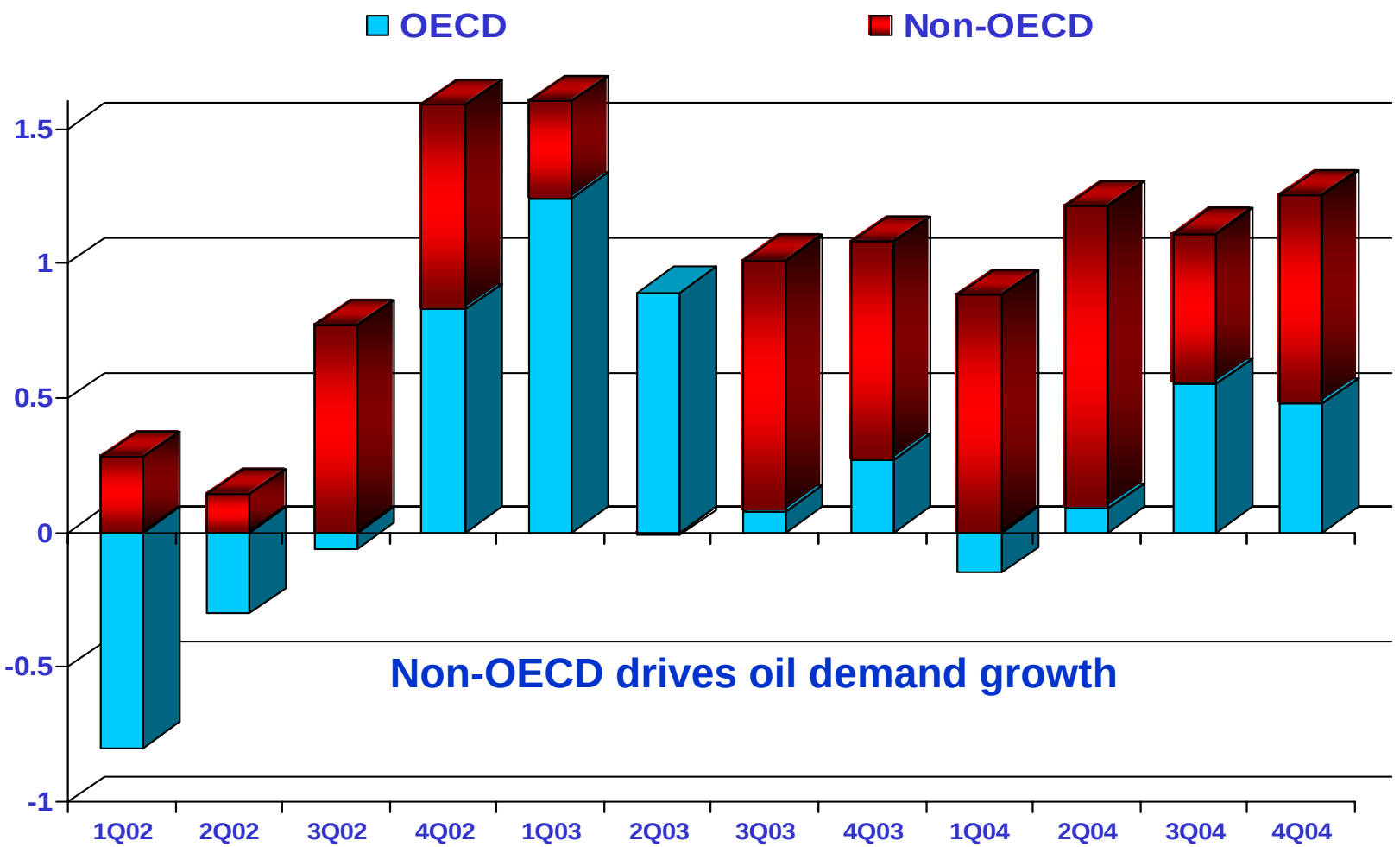
- Call on OPEC has been revised higher for 2004 in recent months – still sharp dip in second quarter
- OPEC has greater potential to control market with higher call, but faces internal pressures + rising non-OPEC & OPEC liquids production
- OPEC's ability to sustain high prices in 2004 depends on ability to keep stocks tight

November *Oil Market Report* (OMR)

- Global economic recovery is picking up steam – US, Japan, Europe
- Chinese growth, while high, appears sustainable – risk of "bubble"
- With GDP up, should start to see higher oil demand growth
  - 2003 - +170 kb/d 1.3 mb/d
  - 2004 - +20 kb/d 1.1 mb/d
- While all regions contribute to increased oil demand growth, momentum is provided by China
- Chinese oil demand is fueled:
  - Transportation sector – car sales and registrations
  - Utility sector – building new oil-powered capacity
  - Industrial sector – shift in industrialization to China
- Recovery in Iraq also contributing to oil demand growth

Oil Demand Recovery: OECD Vs Non-OECD

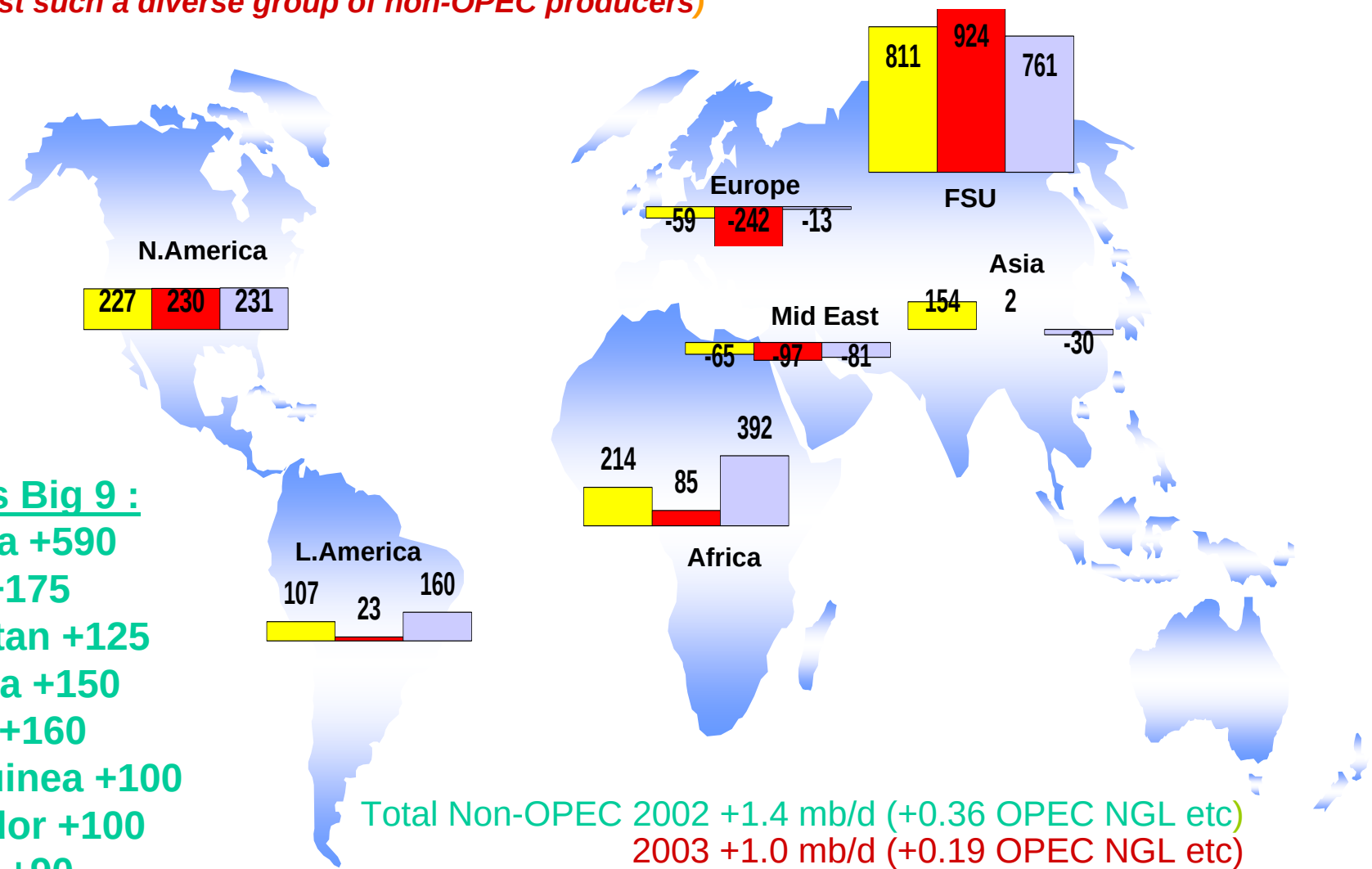
October OMR Forecast of Quarterly Demand Growth (mb/d)



Oil Demand Growth: 2003: 1.3 mb/d (1.7%); 2004: 1.1 mb/d (1.4%)

Main Non-OPEC Supply Gains 2002/2003/2004

(Difficult for OPEC to engineer constraint amongst such a diverse group of non-OPEC producers)



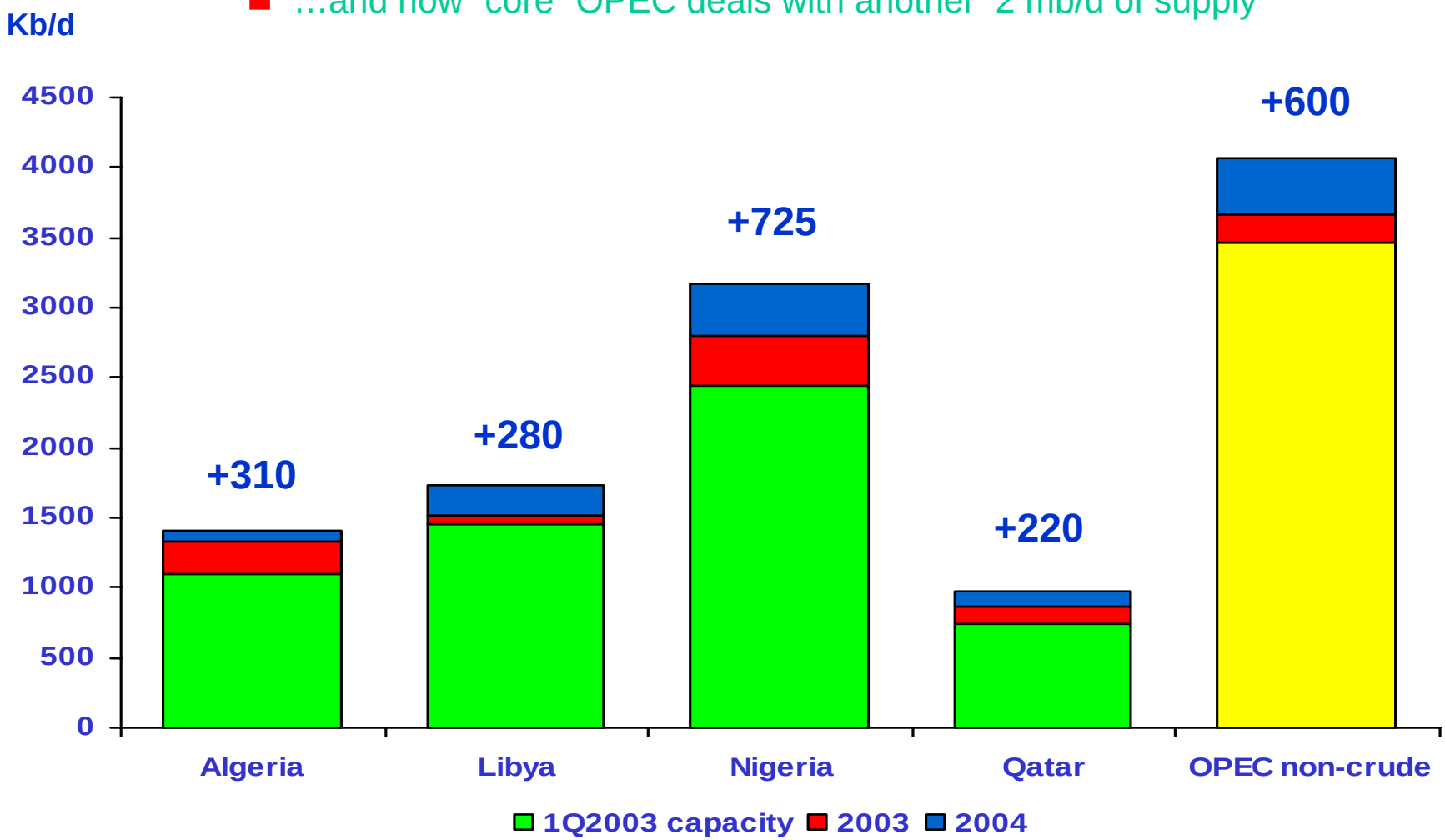
2004's Big 9 :

- Russia +590
- USA +175
- Kaz'stan +125
- Angola +150
- Chad +160
- Eq.Guinea +100
- Ecuador +100
- Brazil +90
- Canada +90

Total Non-OPEC 2002 +1.4 mb/d (+0.36 OPEC NGL etc)
2003 +1.0 mb/d (+0.19 OPEC NGL etc)
2004 +1.4 mb/d (+0.41 OPEC NGL etc)

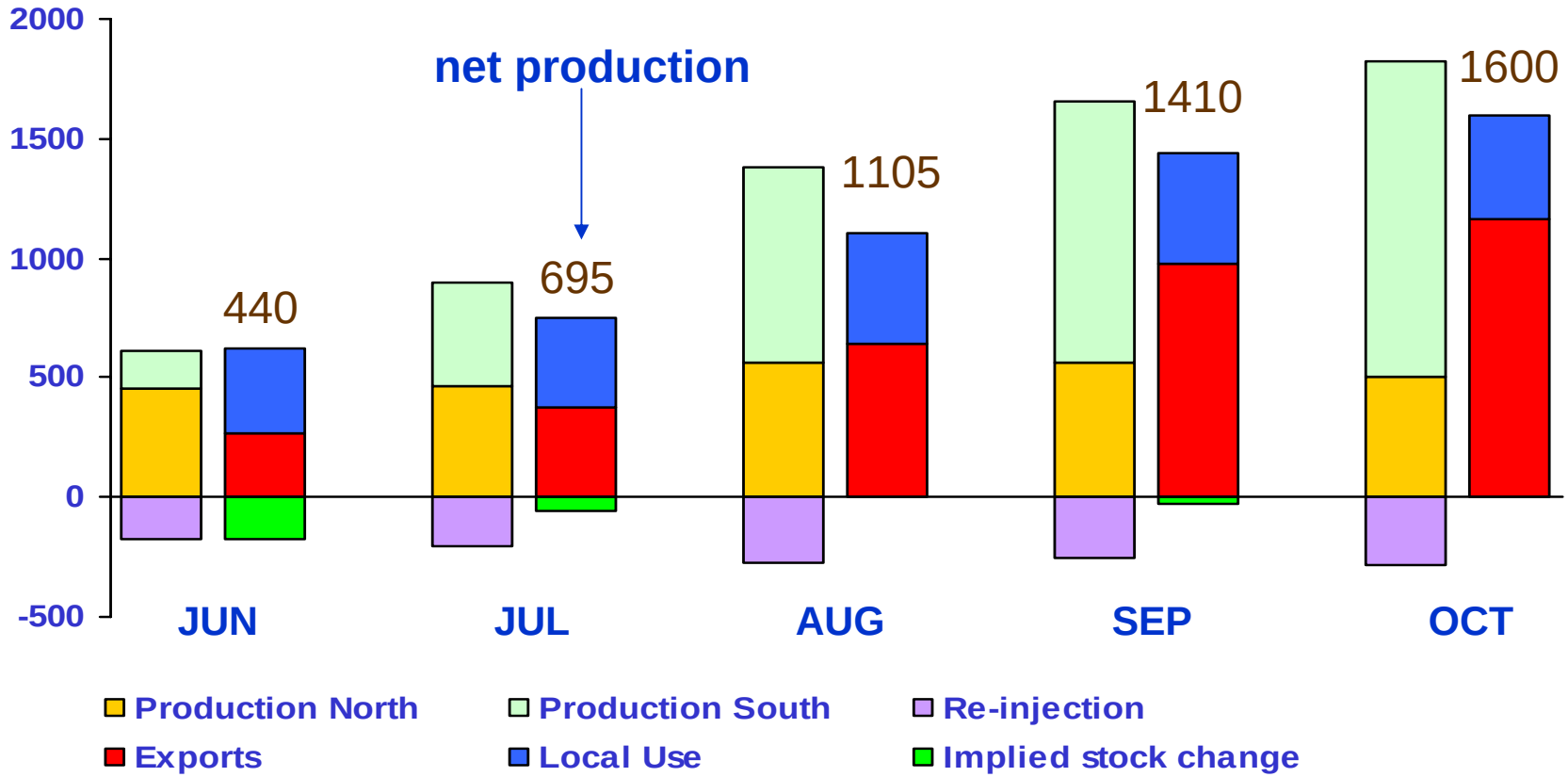
OPEC Capacity Expansions Expected in 2003 / 2004

- Recent & imminent capacity gains most pronounced in OPEC countries with significant foreign investment
- Raises the issue of re-allocation of quotas...
- …and how “core” OPEC deals with another 2 mb/d of supply



Estimated Iraqi Supply through 2003

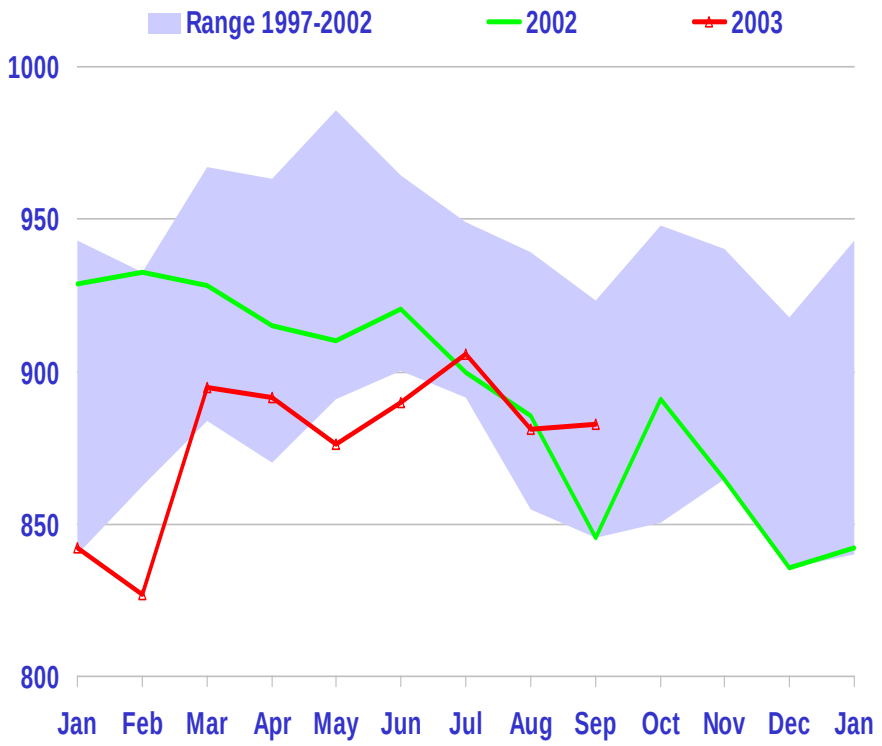
(Pre-war exports circa 2 mb/d)



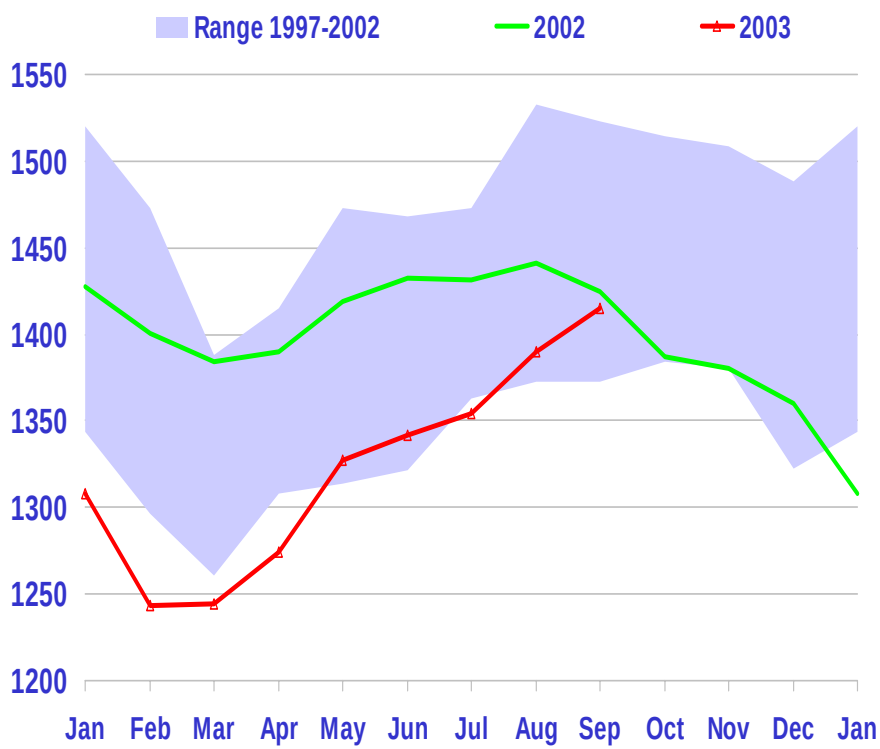
- *no northern pipeline flows exports until late-Nov?*
- *initial 200-300 kb/d implies no Ceyhan liftings before mid-December earliest*
- *Basrah export target for December is 1.6mb/d*
- *Pre-war production capacity of 2.8 mb/d before mid-2004 looks ambitious*

OECD Industry Stocks :Crude vs. Total Products
Position at the end of the third quarter 2003 (mb)

Crude Stocks

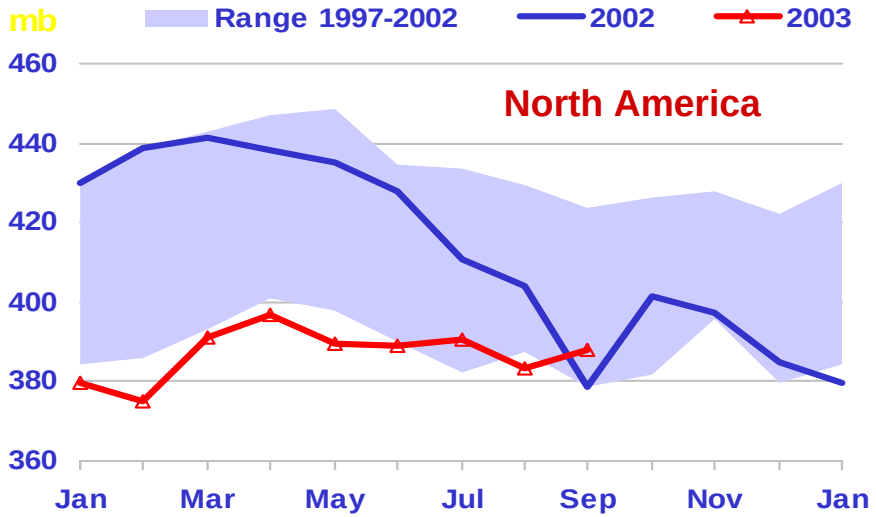


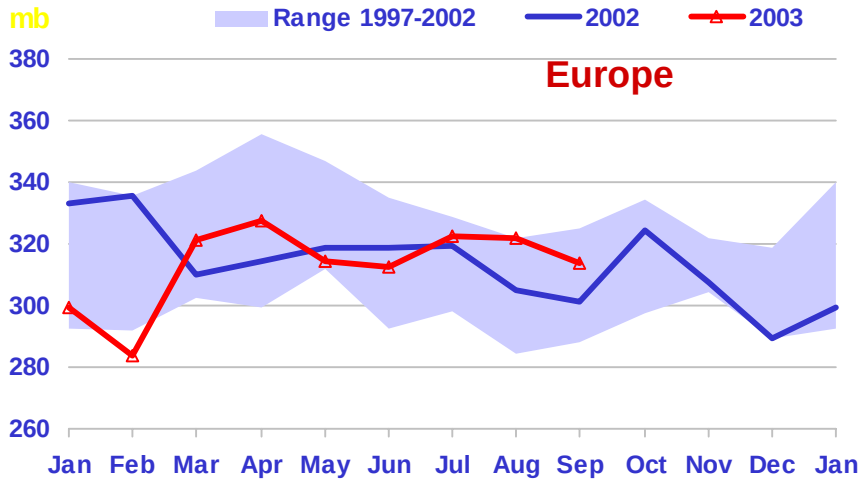
Total Product Stocks

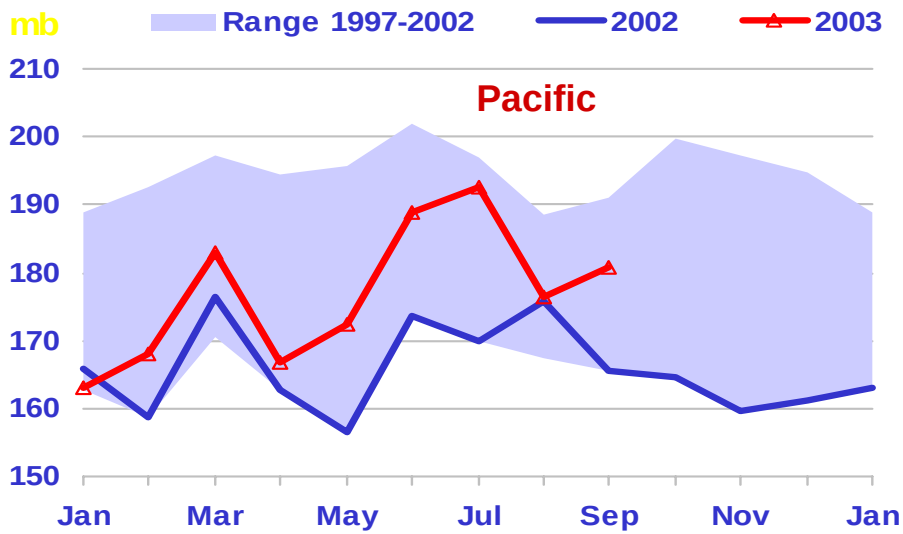


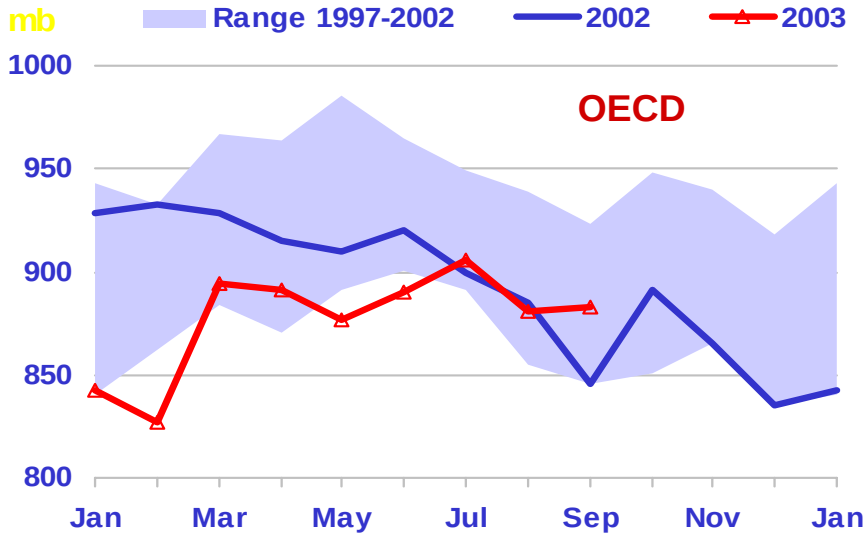
- **Still deficits against the average value in the recent 5 year range:**
  - **Crude stocks fall in the lower half of their range: 883 mb - 11 mb below the average.**
  - **Total products have posted a strong recovery: 1415 mb / - 25 mb below the average**

OECD Crude Industry Stocks 5-year Range (mb)



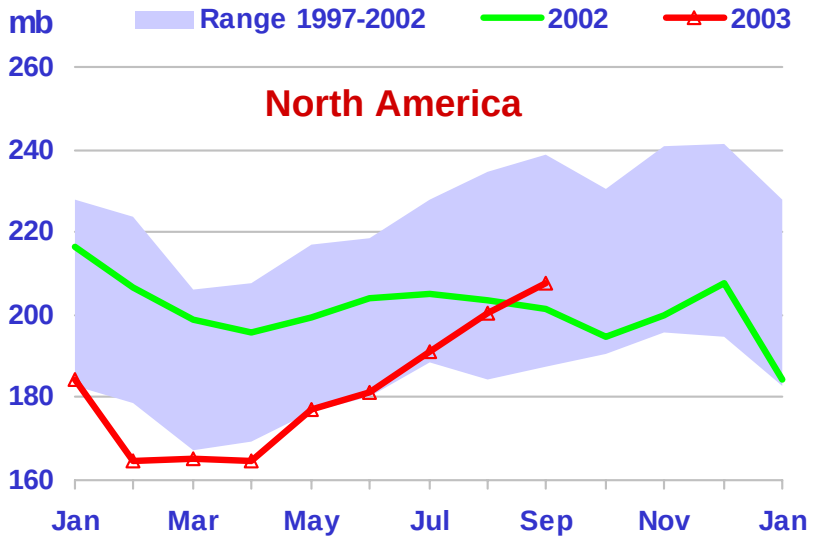


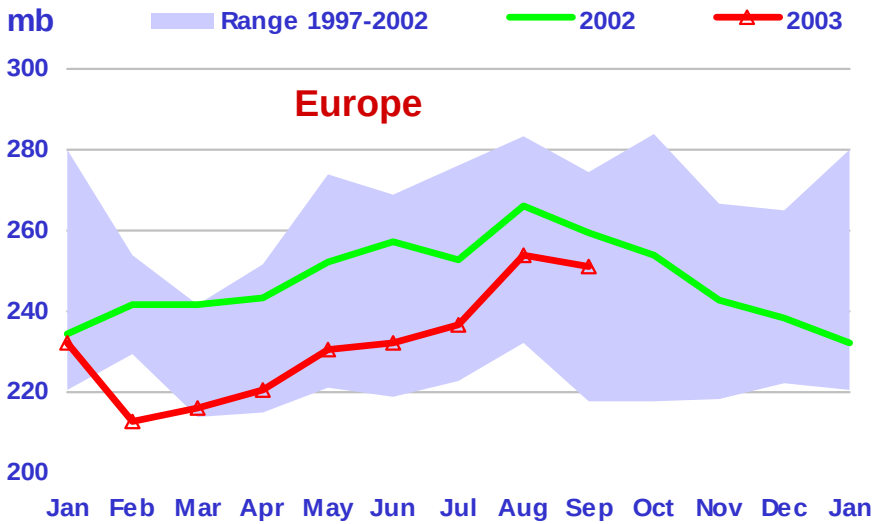


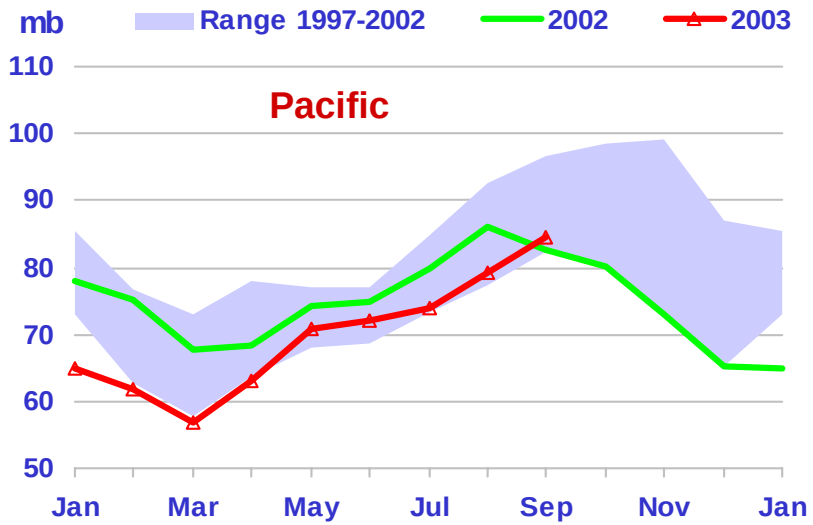


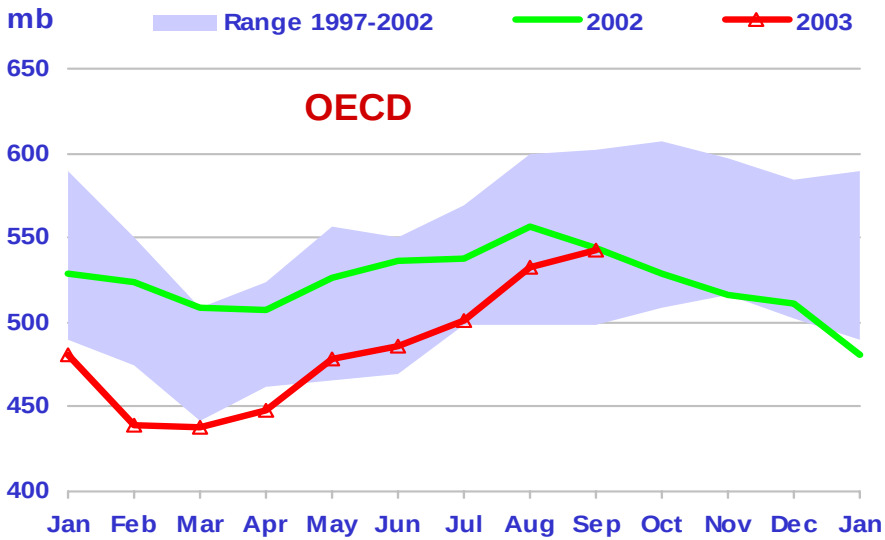
- North America still low, Pacific comfortable, Europe to hold flat

OECD Middle Distillates Industry Stocks 5-year Range (mb)









- All regions see a recovery in their distillate positions

Recent Heating Oil (Kerosene) Stocks Trends in the Pacific

Japanese Nuclear Issues:

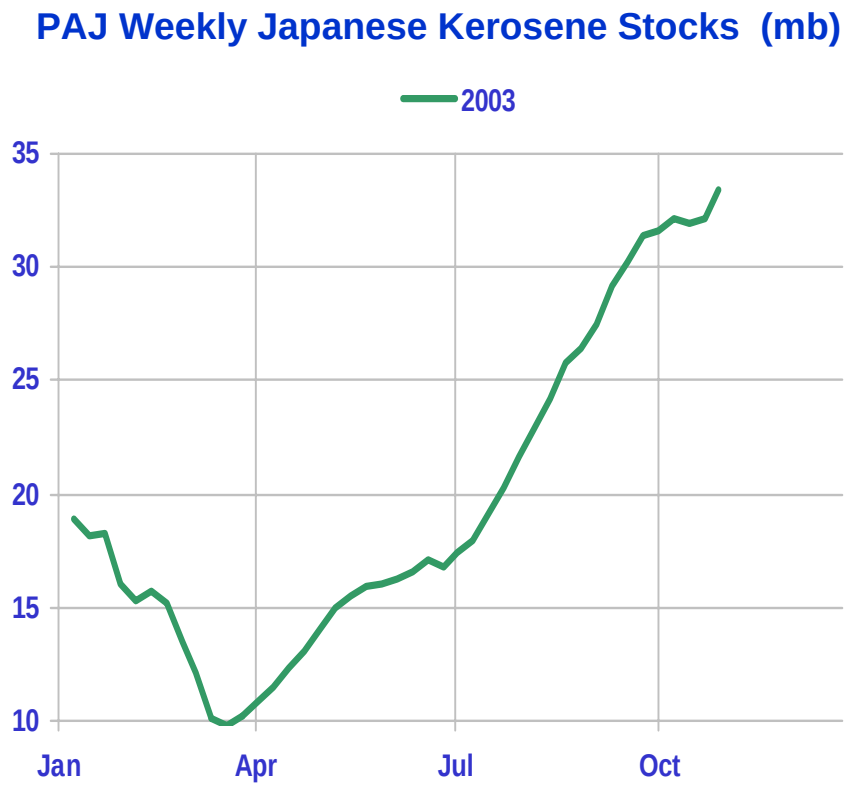
Wildcard for oil demand

Only 5 of 17 Tepco facilities back on line

Receive disproportionate amount of questions & attention

Concern: how impact Japanese future nuclear power development?

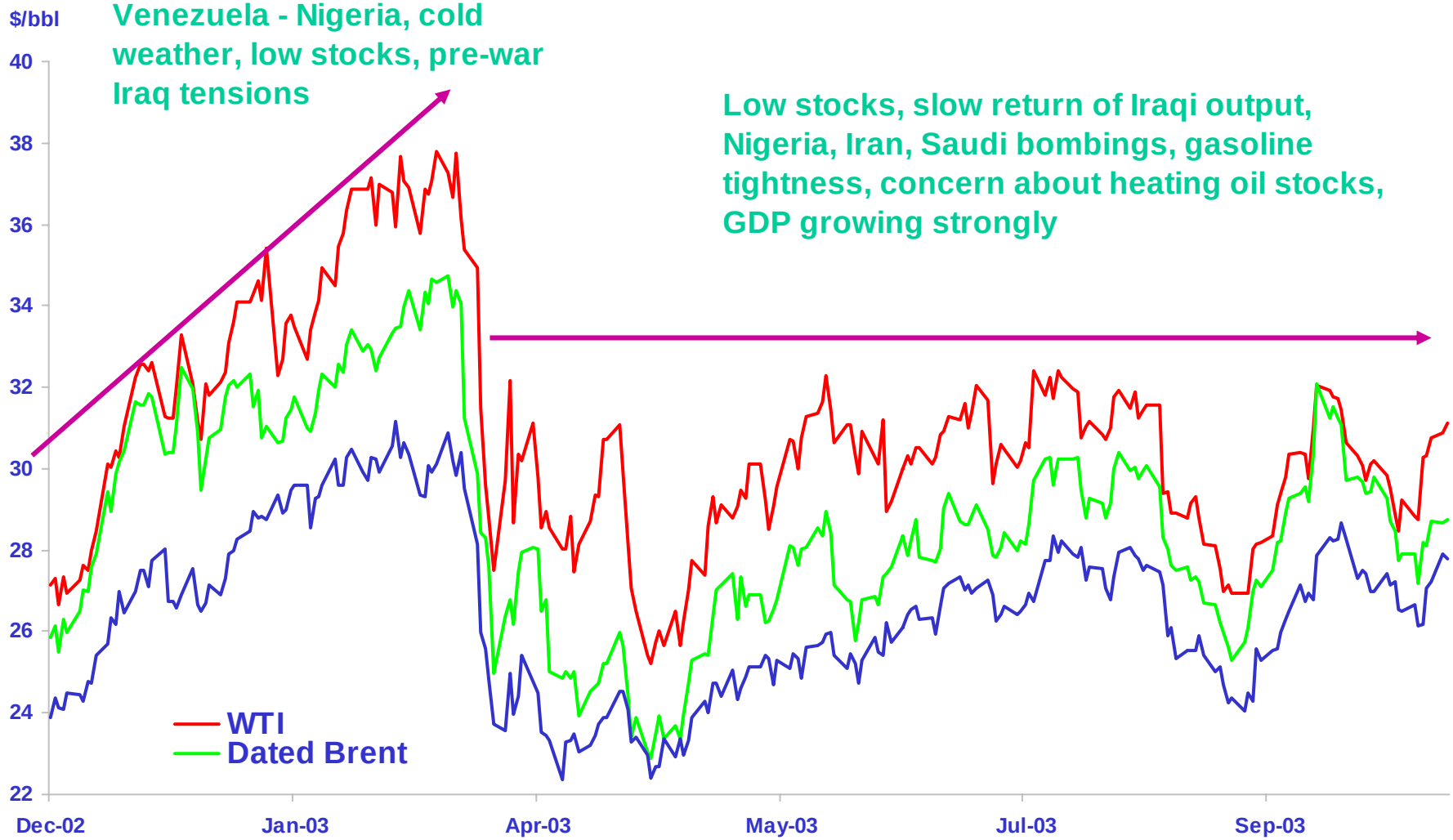
Will health, safety & maintenance issues inhibit return to "normal" practices



Pacific: Strong Japanese Kerosene build

Japanese kerosene stocks rebuilt ahead of winter, strong gains over third quarter

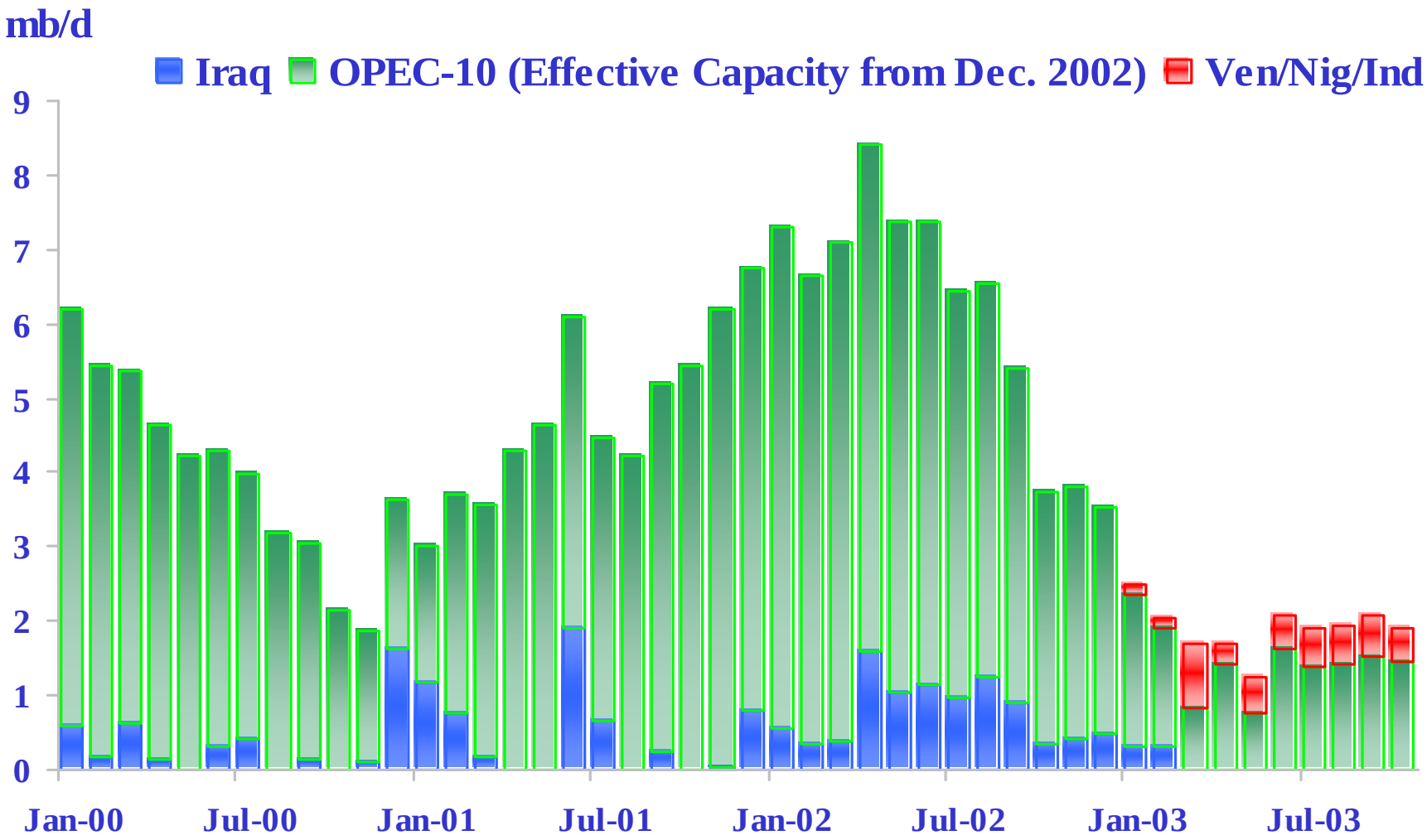
Oil Prices – Since end 2002



Expect prices to remain firm heading into the winter

OPEC dilemma: how cut production when prices above range?

Current OPEC Spare Production Capacity

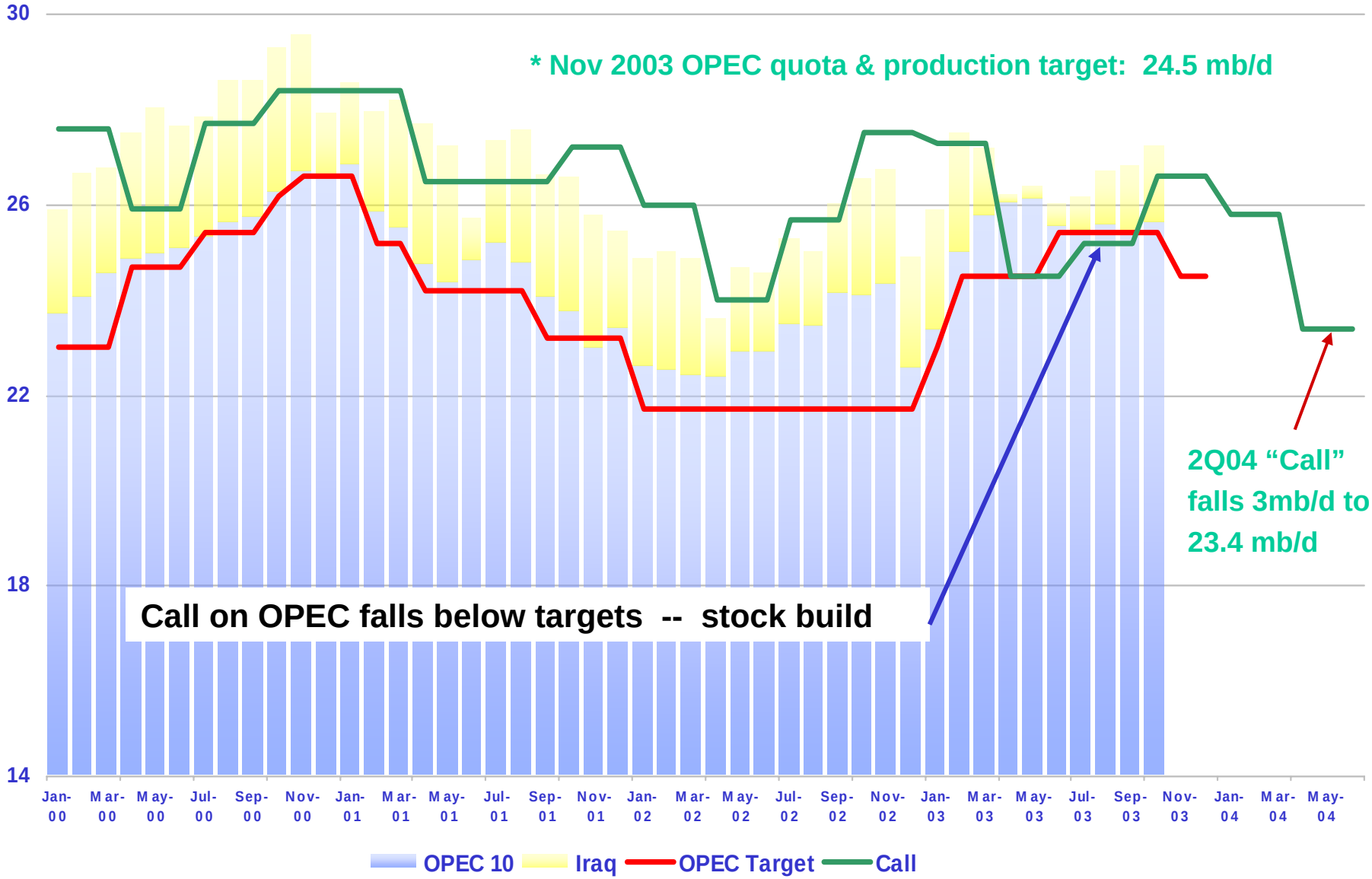


Heading into winter, with balanced/low stocks and supply-side risks
- Effective spare capacity around 1.5 mb/d

Wall of Crude

- OPEC-10 needs to cut more than 1 mb/d from October production to meet 1 November targets (24.5 mb/d)
- Early November liftings suggest production increasing
- Indonesia, Venezuela won't cut - can't make current quota
- Nigeria, Algeria are requesting higher allocations – won't cut in a high-price environment
- Laves Gulf producers to take brunt of cut
- Will Iran cut production as it positions itself for higher quotas?
- Non-OPEC producers are not going to cut if prices remain much above $20
- Stocks normally build in 2Q and 3Q, but not by 3.5 mb/d
- Prices will weaken assuming larger than 1.5 mb/d stock build
- OPEC-10 (Saudi) will have to take a significant hit to balance the market

OPEC Crude Production and "Call-on-OPEC"



With Iraq at 2 mb/d, the 2Q04 "call" on OPEC-10 falls to 21.4 mb/d (OPEC-10 last there in 1990)

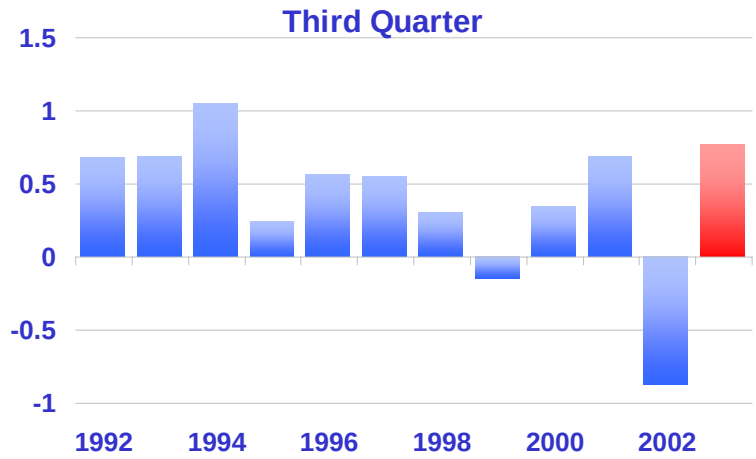
Hitting The Wall (mb/d)

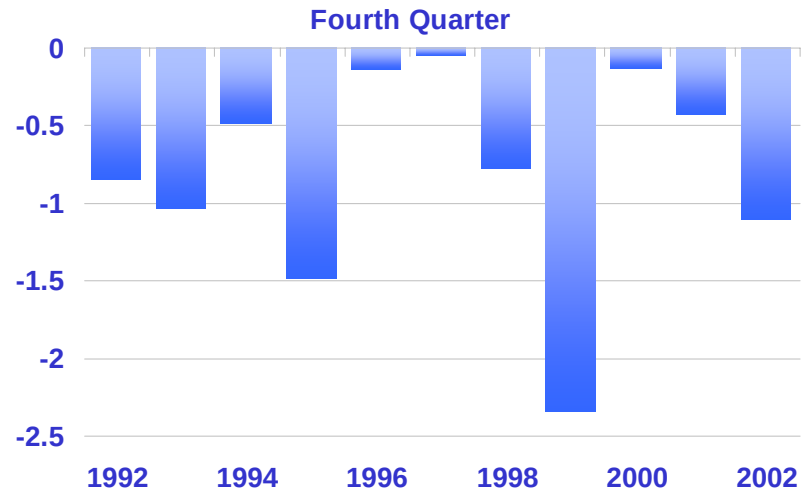
	2002	2003	2004	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
World Demand	77.3	78.6	79.6	79.3	76.3	78.0	80.6	80.0	77.5	79.1	81.9
Non-OPEC Supply	48.0	49.0	50.4	48.8	48.2	48.9	50.0	50.2	50.1	50.3	51.1
OPEC NGLs	3.5	3.7	4.1	3.3	3.7	3.8	4.0	4.0	4.0	4.1	4.2
OPEC 10 -Crude	23.1	25.4	24.5	24.7	25.9	25.5	25.4	24.5	24.5	24.5	24.5
Iraq	2.0	1.3	2.5	2.1	0.3	1.1	1.8	2.2	2.4	2.6	2.8
Total OPEC Crude	***25.2***	***26.5***	***27.0***	***26.8***	***26.2***	***26.5***	***27.2***	***26.7***	***26.9***	***27.1***	***27.3***
Build/(Draw)	***-0.6***	***0.6***	***1.9***	***-0.5***	***1.7***	***1.3***	***0.6***	***0.9***	***3.5***	***2.4***	***0.7***
Call on OPEC	***25.8***	***25.9***	***25.1***	***27.3***	***24.5***	***25.2***	***26.6***	***25.8***	***23.4***	***24.7***	***26.6***

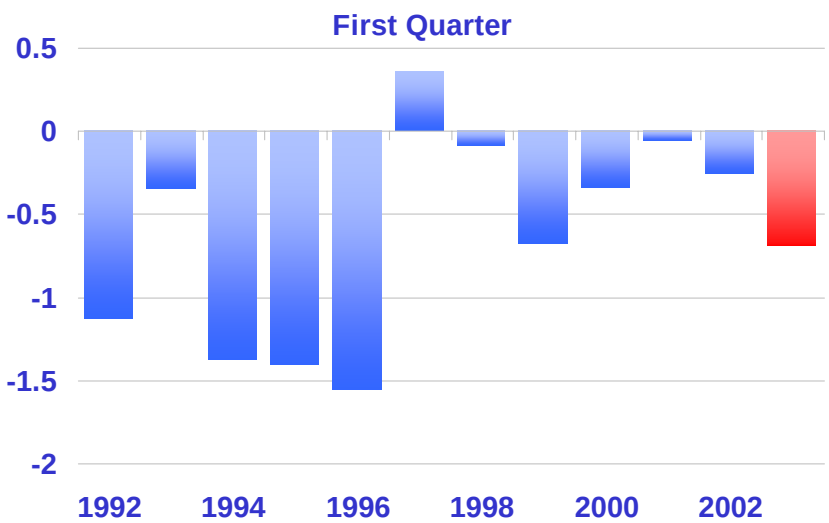
IEA does NOT publish price or OPEC supply forecasts

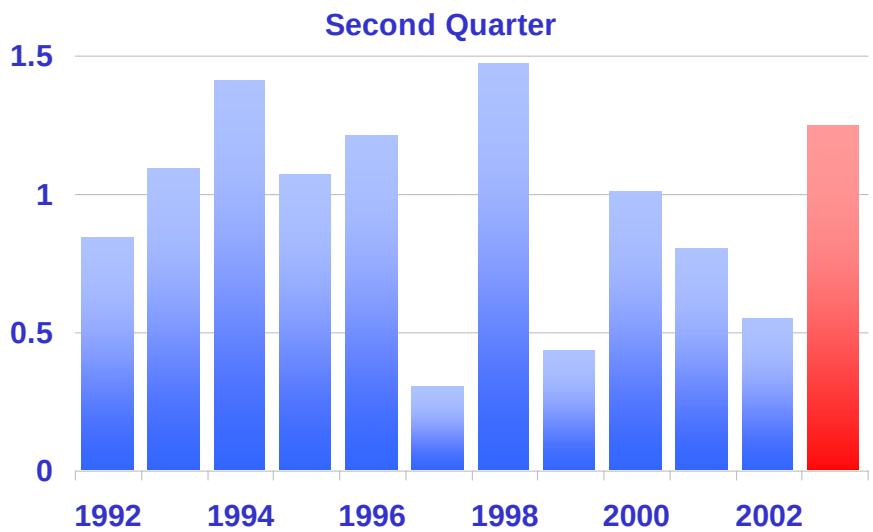
Assuming OPEC-10 Producing at target from November 1st 2003, Iraq production increasing by 200 kb/d per quarter

Quarterly OECD Industry Stock Changes
Total Oil Stocks (mb/d)





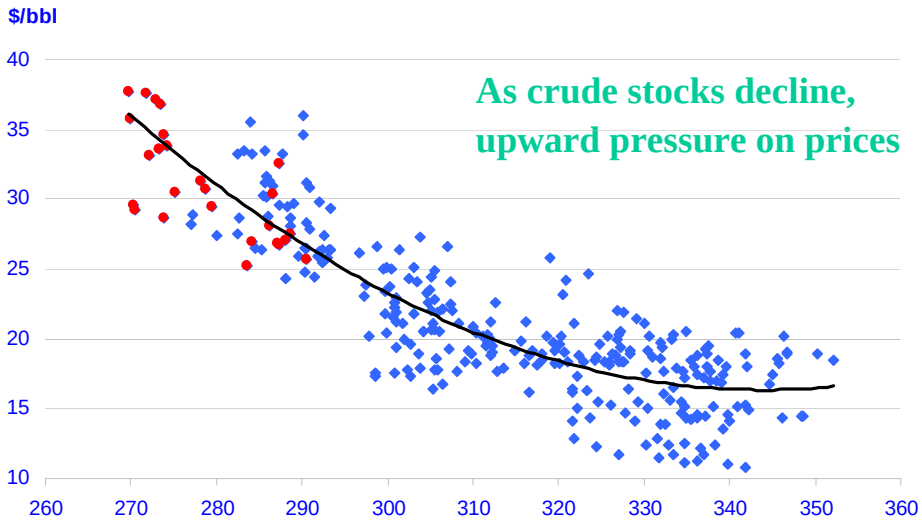


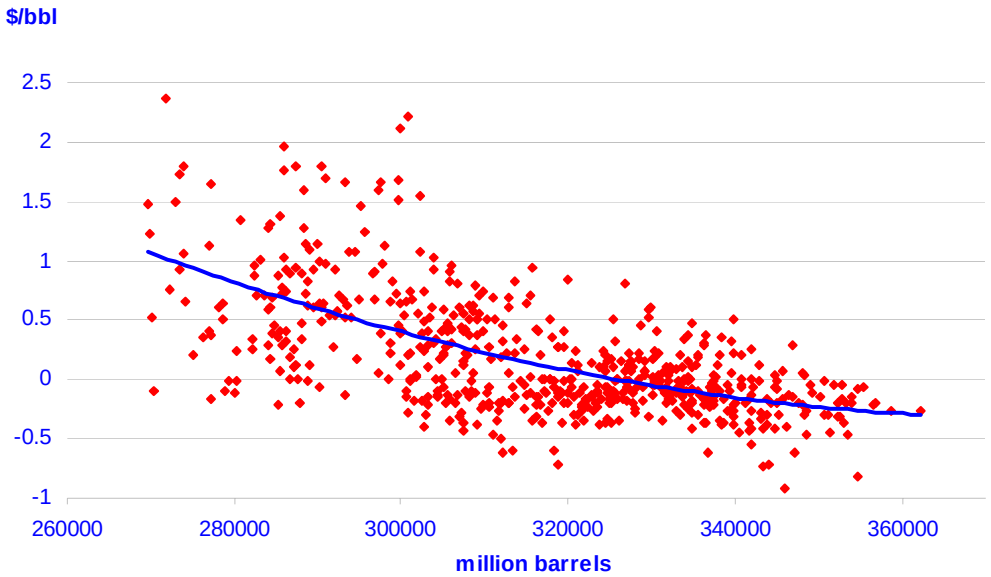


- Need to differentiate between seasonal and discretionary stock builds, draws
- Backwardation effects both, but to varying degrees (minimum operating requirements)

US Crude Stocks vs. Prices

US winter crude stocks & WTI prices. Higher prices are associated with lower inventory levels.





Backwardation is related to low stocks, and increased price volatility

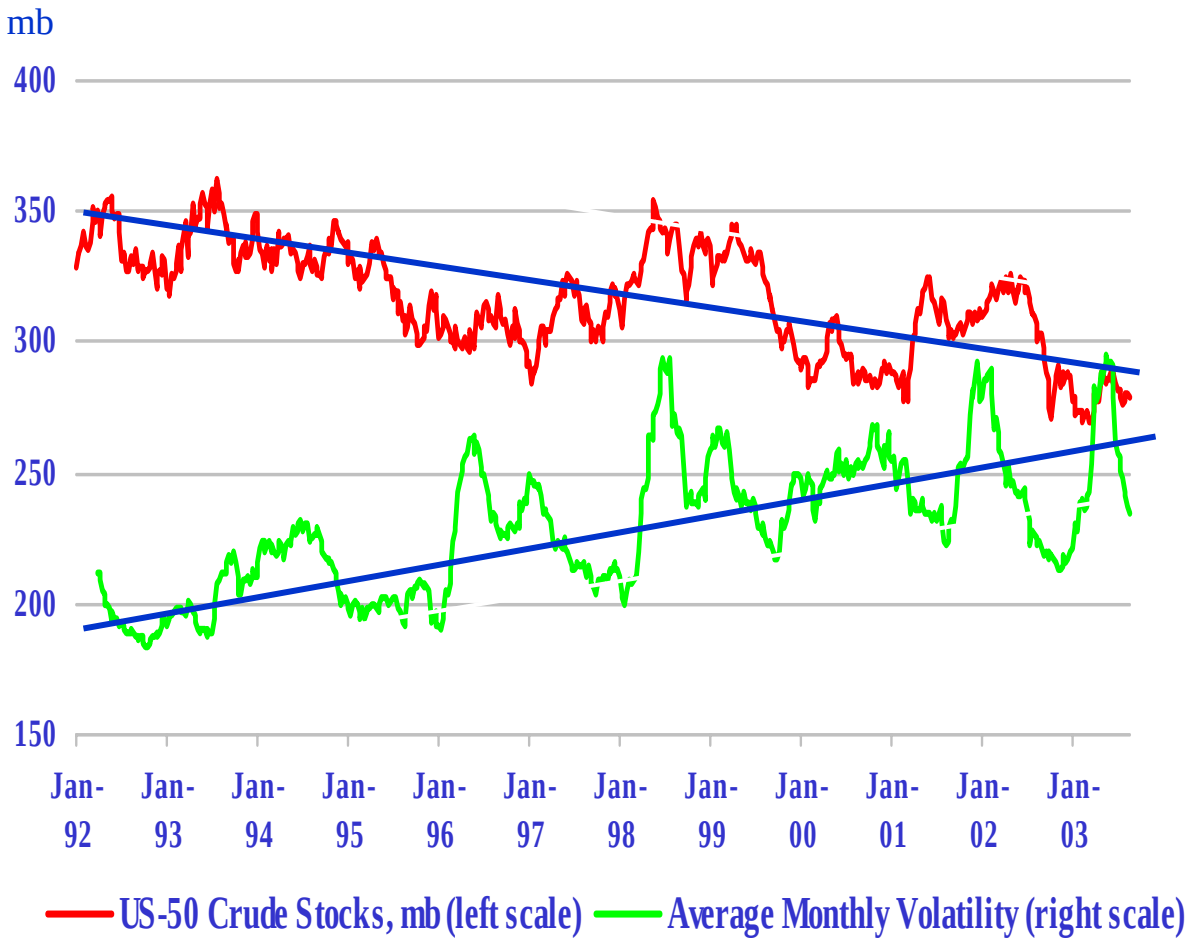
US-50 Crude Stocks vs. WTI Price Volatility

US industry crude stocks are on a long-term lower trend (mergers; IT; ROCE)

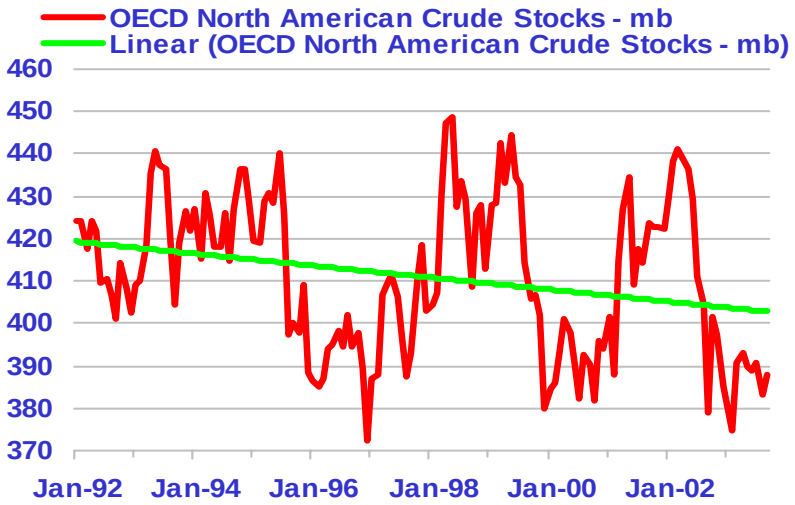
Clear relationship between lower stocks & increased price volatility

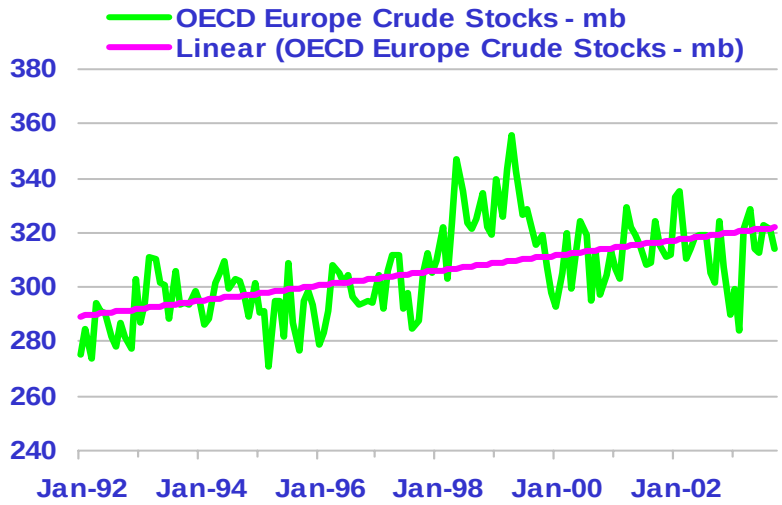
As stocks get tighter, takes longer, and costs more, to replenish supply from greater distances (heating oil stocks from Russia)

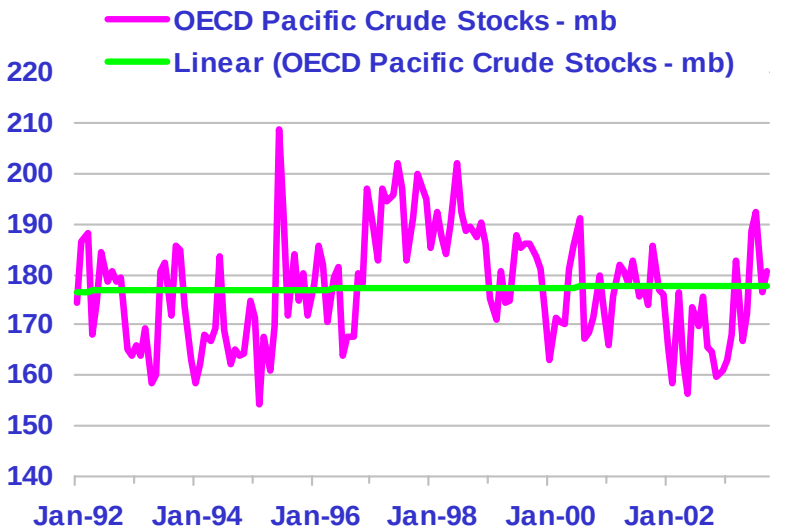
What if cold winter in both Russia and US East Coast? What if Black Sea ports closed due to storms?

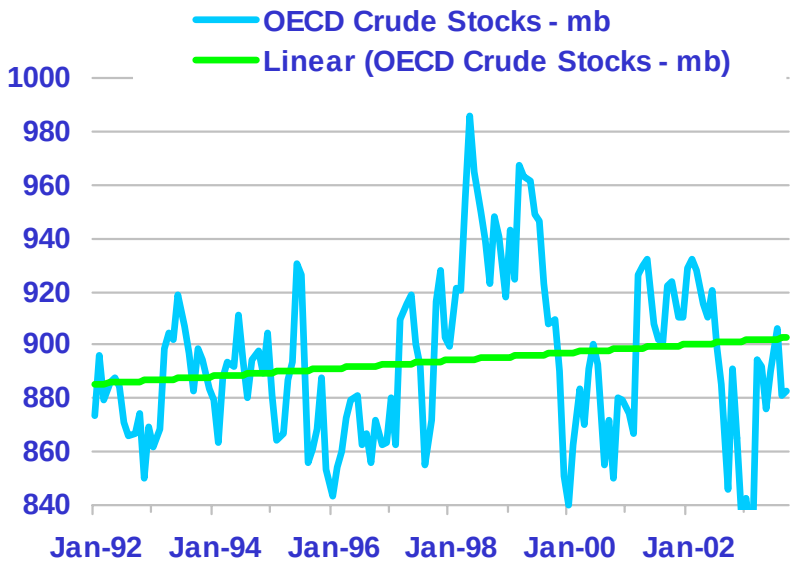


Long Term Industry Crude Stocks Trends in the OECD

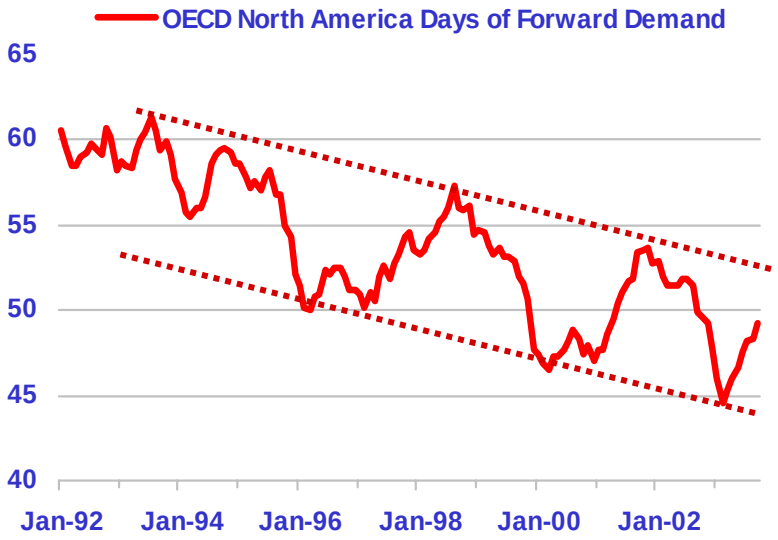


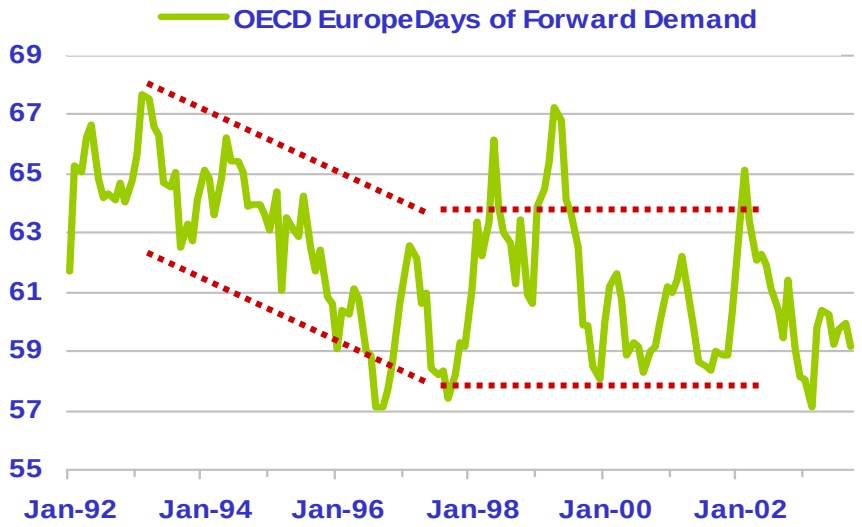


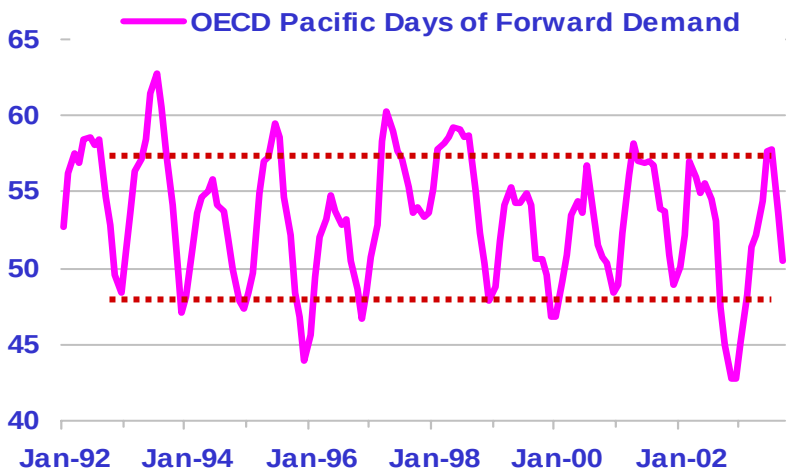


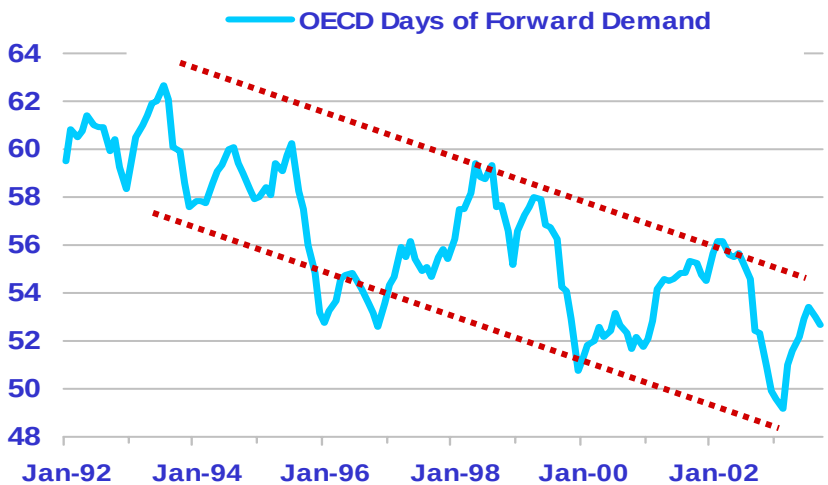


OECD Days of Forward Demand by Industry Total Oil Stocks

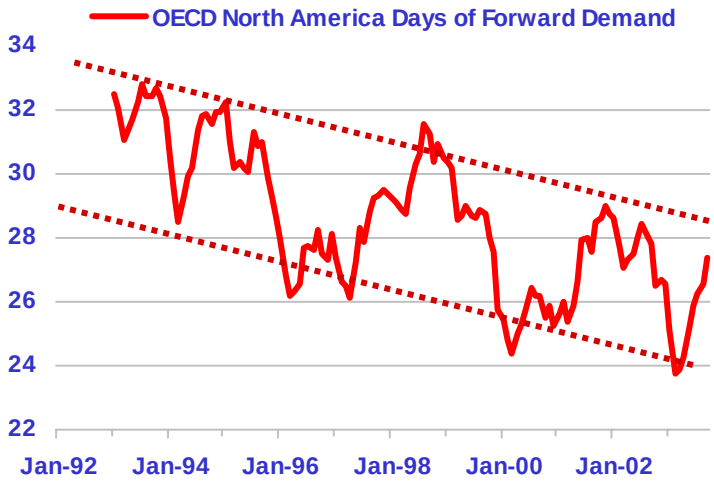


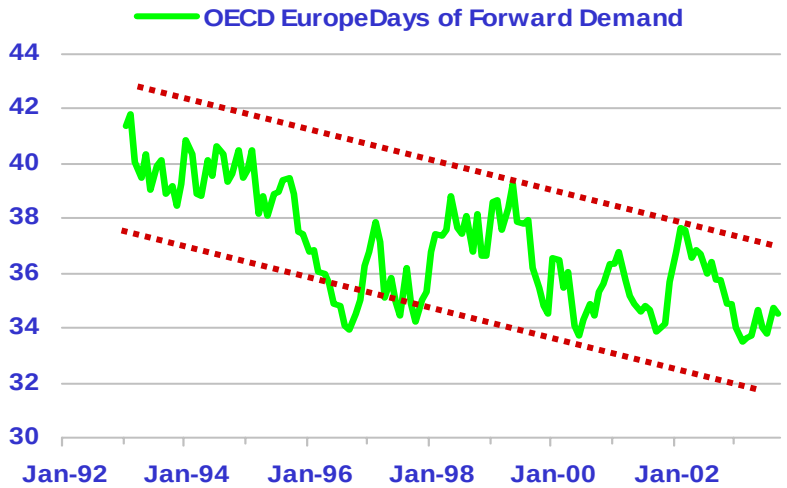


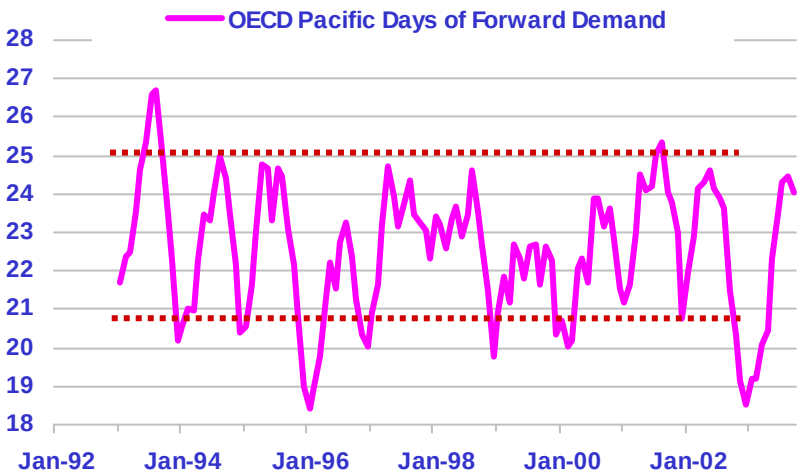


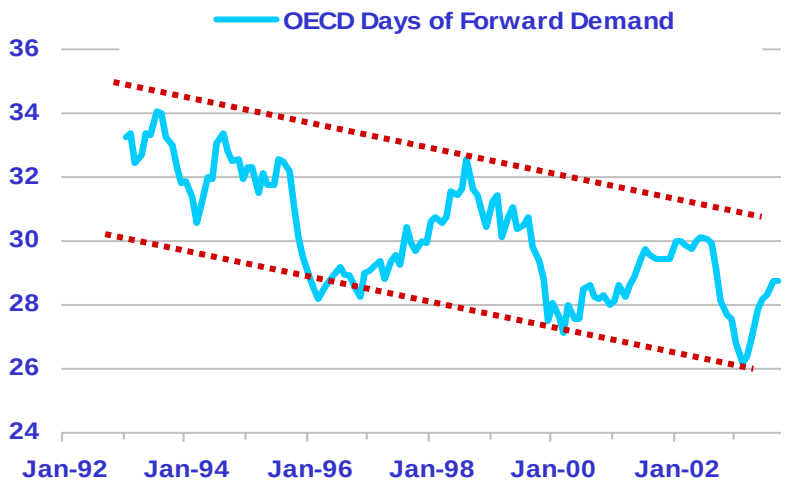


OECD Days of Forward Demand by Industry Total Product Stocks









Russia Now No. 1 Producer…but for how long?

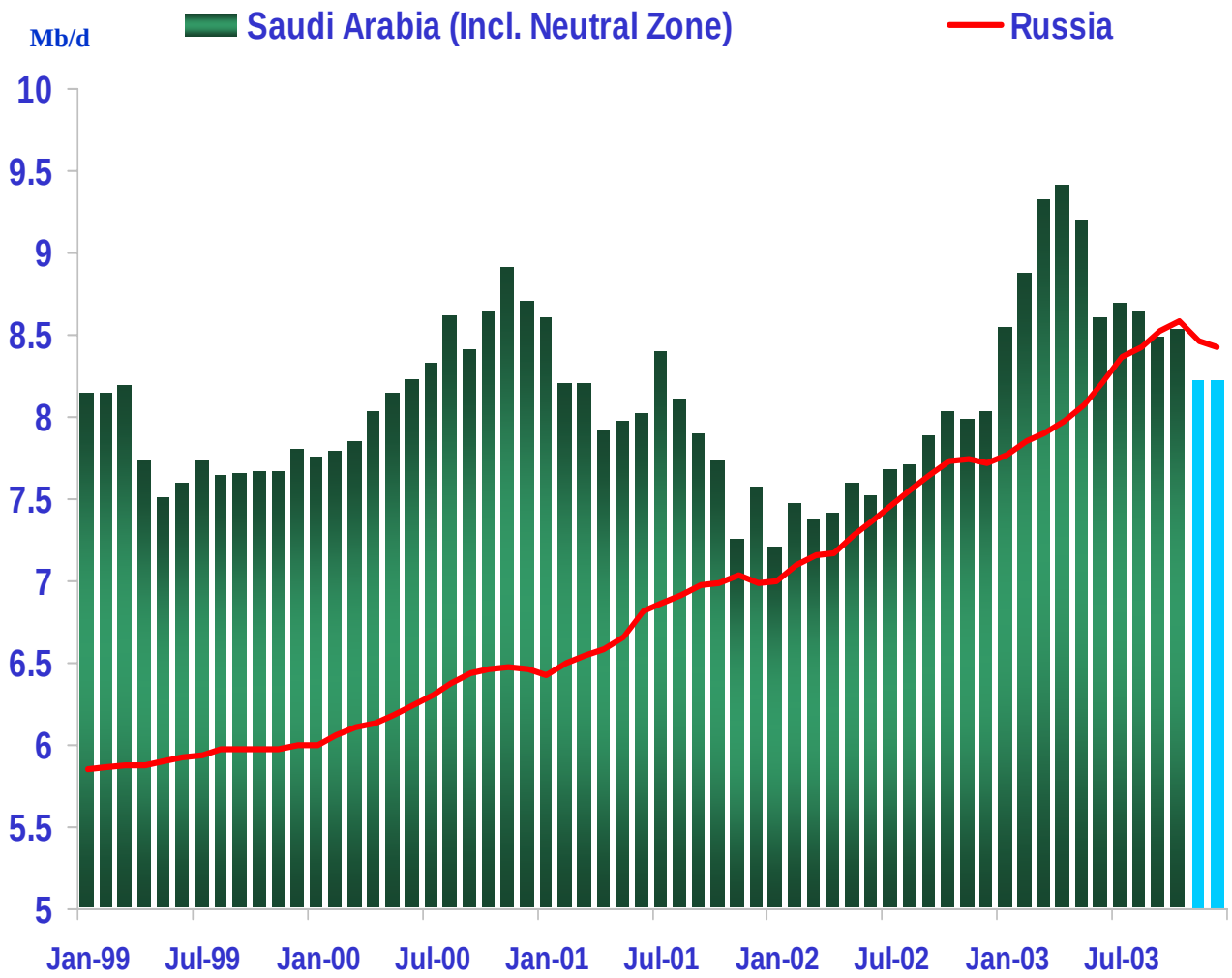
Russia production has increased by 11% in 2003

Can +10% annual growth continue, or will production run into infrastructure or political constraints?

Russia a primary beneficiary of OPEC price policies and supply constraint

IEA estimates Russia took over #1 spot from Saudi Arabia in October

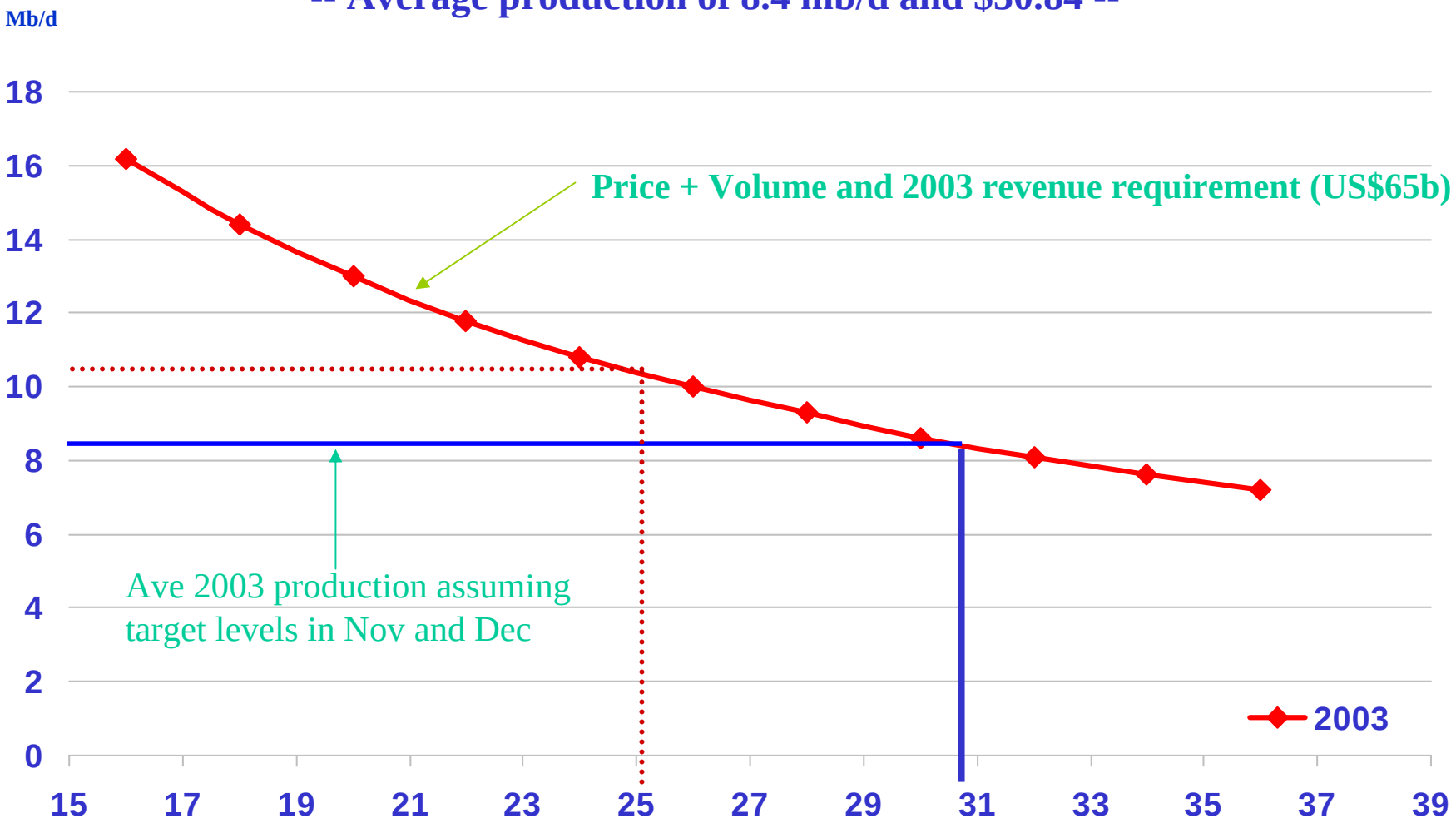
Will Saudi Arabia cede market share to make room for Iraq *and* allow Russia to stay top producer?



*Assuming Saudi Arabia cuts in line with pledge in November and December 2003

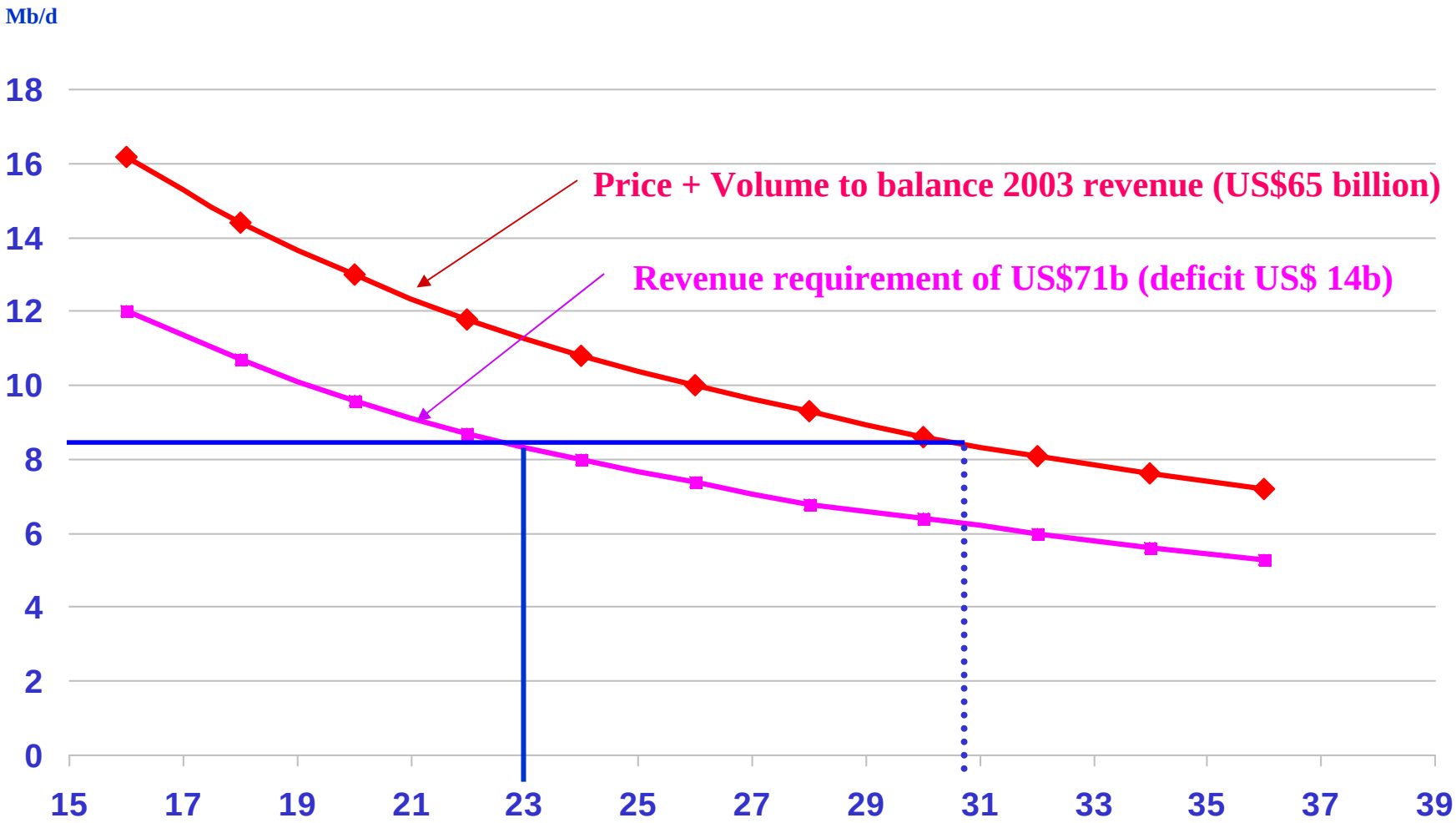
2003 Saudi Oil Revenues (Surplus – US$3b)

-- Average production of 8.4 mb/d and $30.84 --



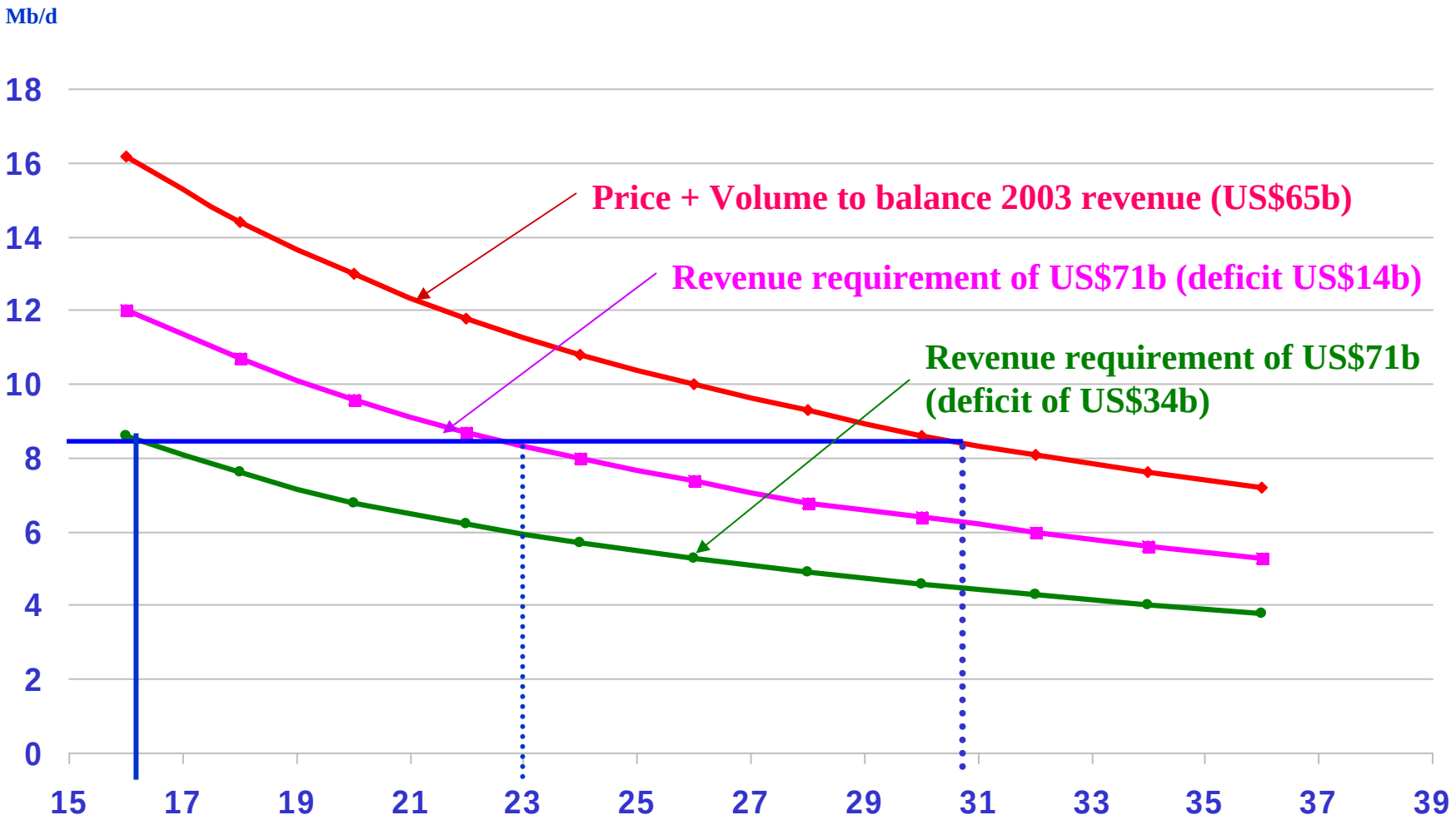
Estimated 2003 expenditures of US$57b (Saudi 2002 budget) and estimated debt servicing of US$9b (based on US$173b national debt). The 2003 budget expenditure forecast may be low given 2002 expenditures of US$57b (ex debt servicing US$8.5b).

2002 Saudi Oil Revenues (Deficit US$14b)



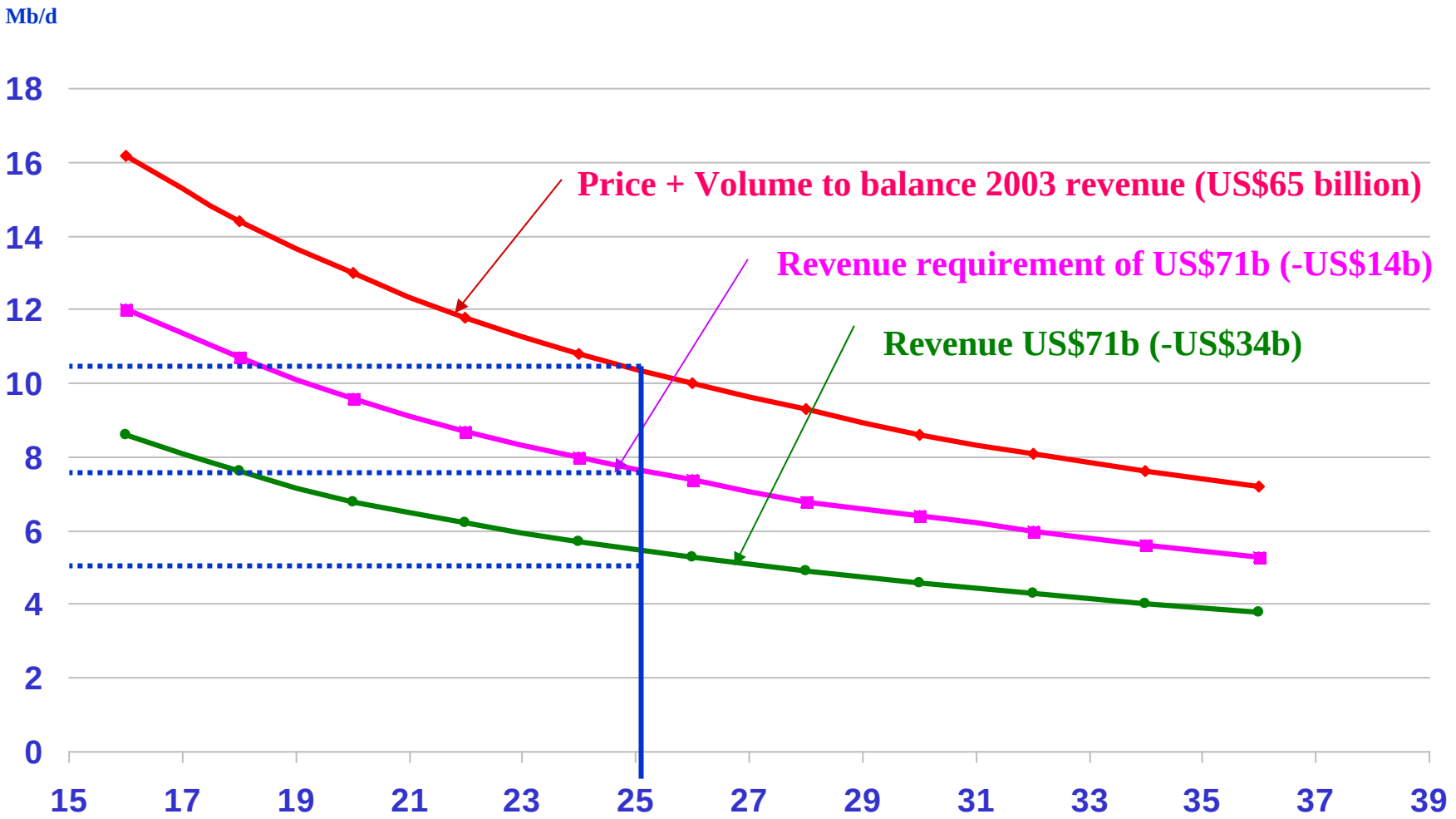
Estimated 2003 expenditures of US$57b (Saudi 2003 budget) and estimated debt servicing of US$9b (based on US$173b national debt). The 2003 budget expenditure forecast may be low given 2002 expenditures of US$62b (ex debt servicing US$8.5b).

2002 Saudi Oil Revenues (Deficit Budget – US$34b)



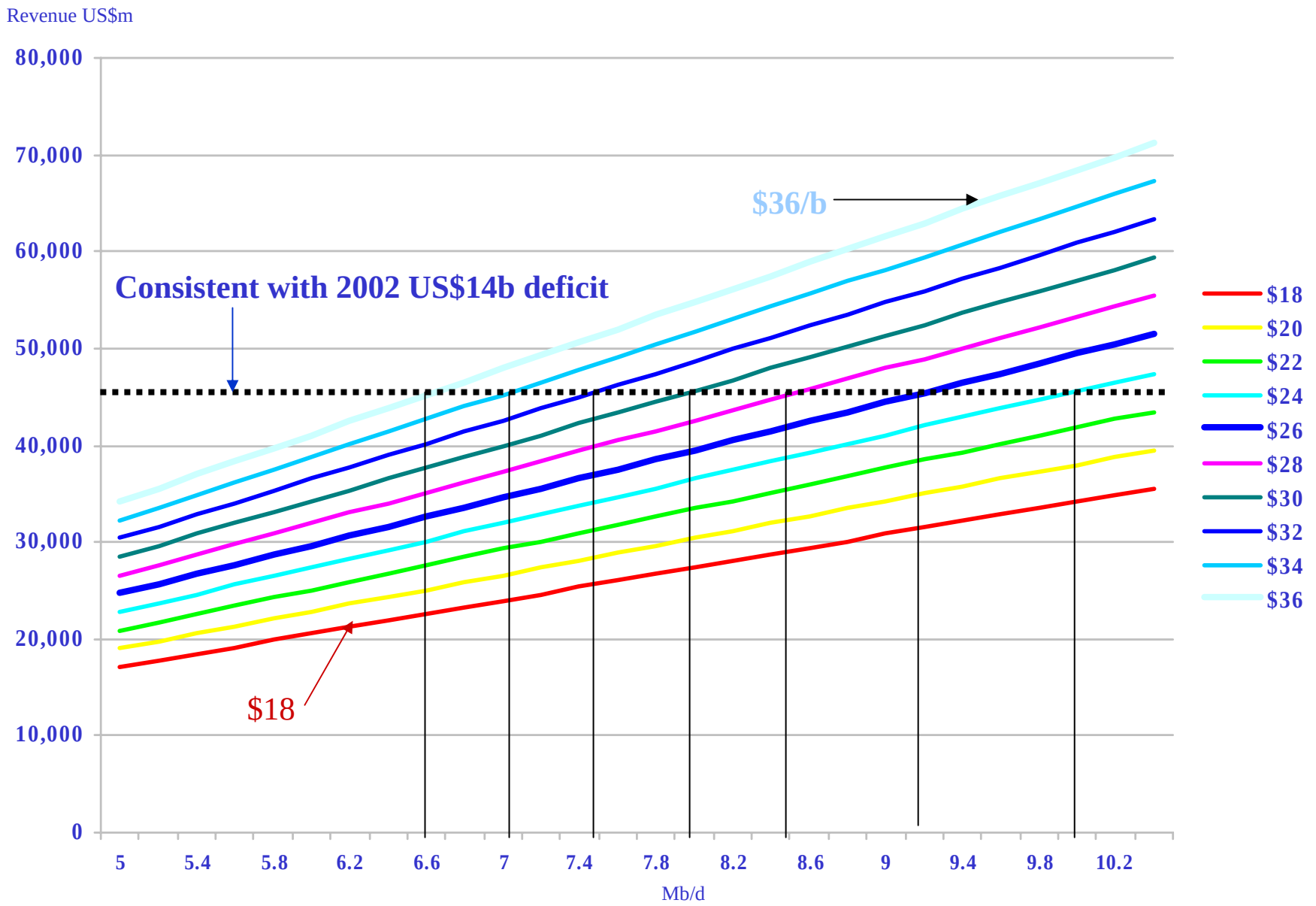
Estimated 2003 expenditures of US$57b (Saudi 2003 budget) and estimated debt servicing of US$9b (based on US$173b national debt). The 2003 budget expenditure forecast may be low given 2002 expenditures of US$62b (ex debt servicing US$8.5b).

2003 Saudi Oil Revenues



Estimated 2003 expenditures of US$57b (Saudi 2003 budget) and estimated debt servicing of US$9b (based on US$173b national debt). The 2003 budget expenditure forecast may be low given 2002 expenditures of US$62b (ex debt servicing US$8.5b).

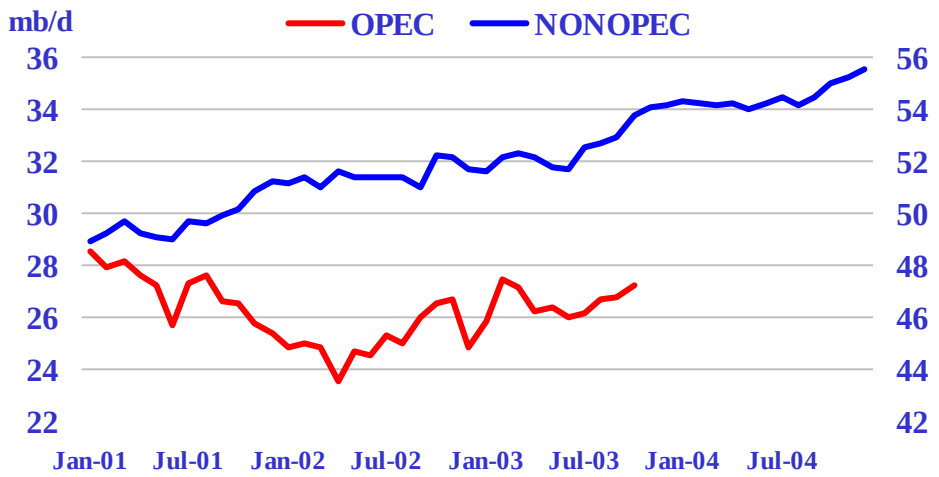
Revenue Vs. Volume @ Fixed Prices



Are These Trends Sustainable?

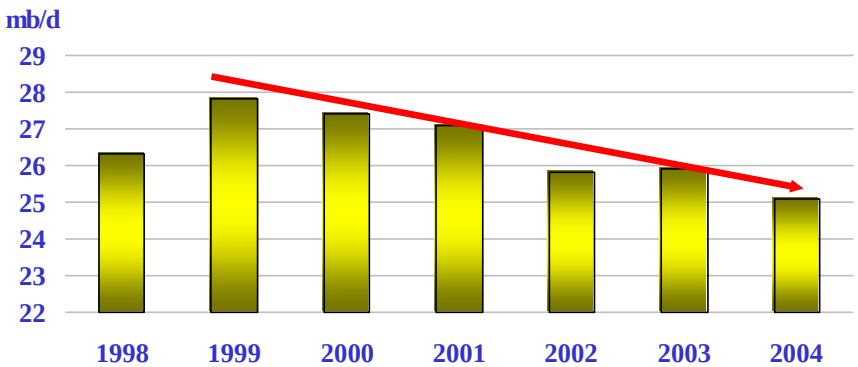
OPEC has lost market share 5 years in a row, and will lose another 800 kb/d to non-OPEC supply in 2004

Is OPEC reaping what it has sown? High oil prices constrain demand and encourage non-OPEC supply



* Non-OPEC supply includes OPEC NGLs, condensates and Venezuelan upgraded bitumen

On top of market share debate, also internal pressures within OPEC: who will cut to accommodate Algerian/Nigerian growth plans? Who will make room for Iraq?



Another Brick In The Wall

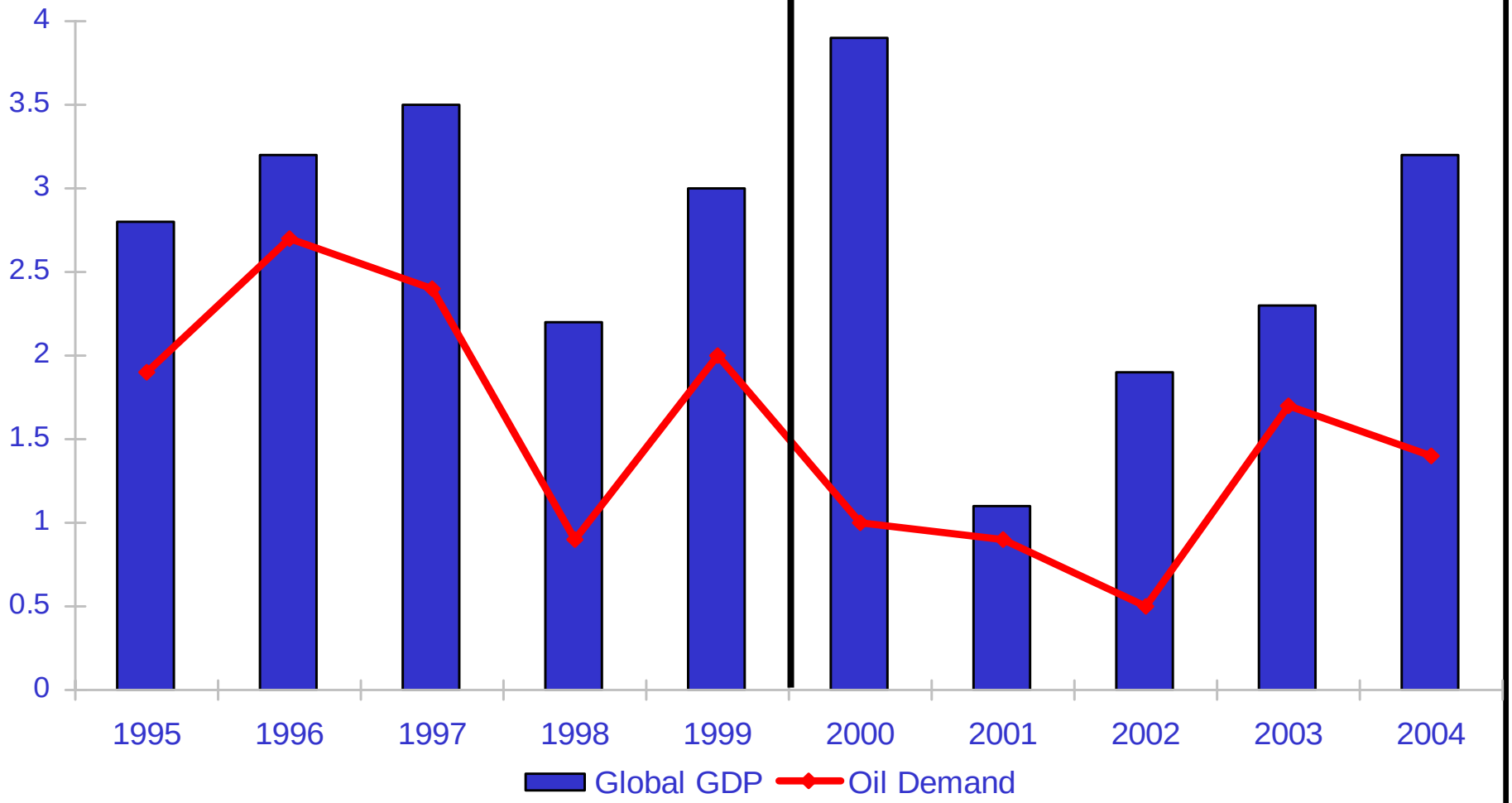
- Even if muddle-through this year, problem will not go away and will only get worse next year as internal & external pressures mount
  - Loss of market share (1.8 mb/d non-OPEC supply, 1.1 mb/d of demand)
  - Increased OPEC NGLs
  - Iraq – OPEC 10 will have to make room up to "quota" of +3.4 mb/d
  - Increased production out of Nigeria, Algeria, Kuwait, UAE …
  - Demand growth contracts as economic rebound slows
  - Return to normal weather
- The "Berlin" wall?

Global Oil Demand Growth vs. GDP Growth

Five Year Period (1995–1999)
Period Demand: 2.0 %
Period GDP: 2.9 %
Ave Period WTI: $18.95

Disconnect

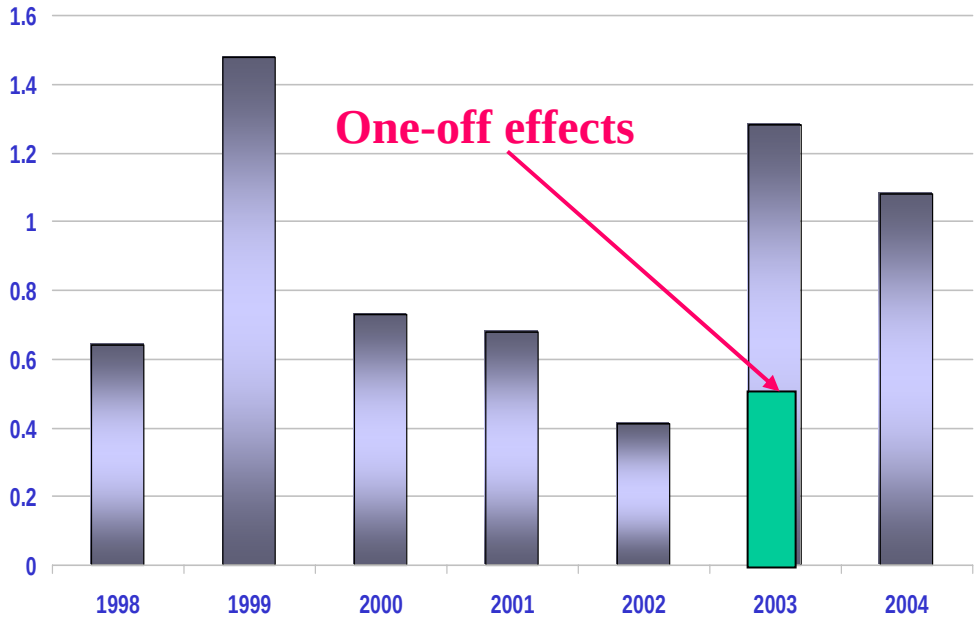
Five Year Period (2000-2004)
Period Demand: 1.1 %
Period GDP: 2.5 %
Ave Period WTI: $28.41

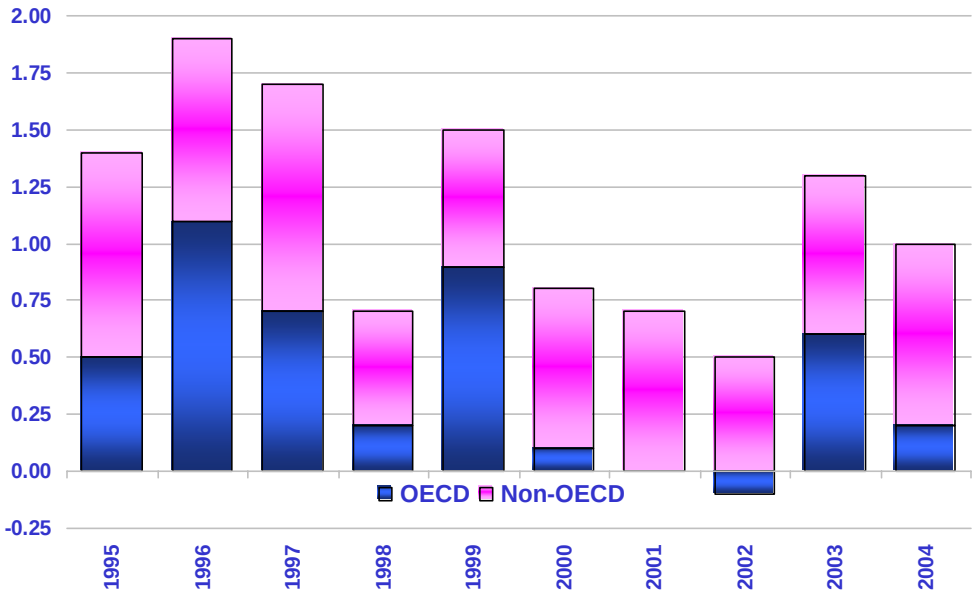


GDP remains the strongest driver of oil demand growth, yet there appears to be a disconnect – why?

Oil Demand Growth (mb/d)

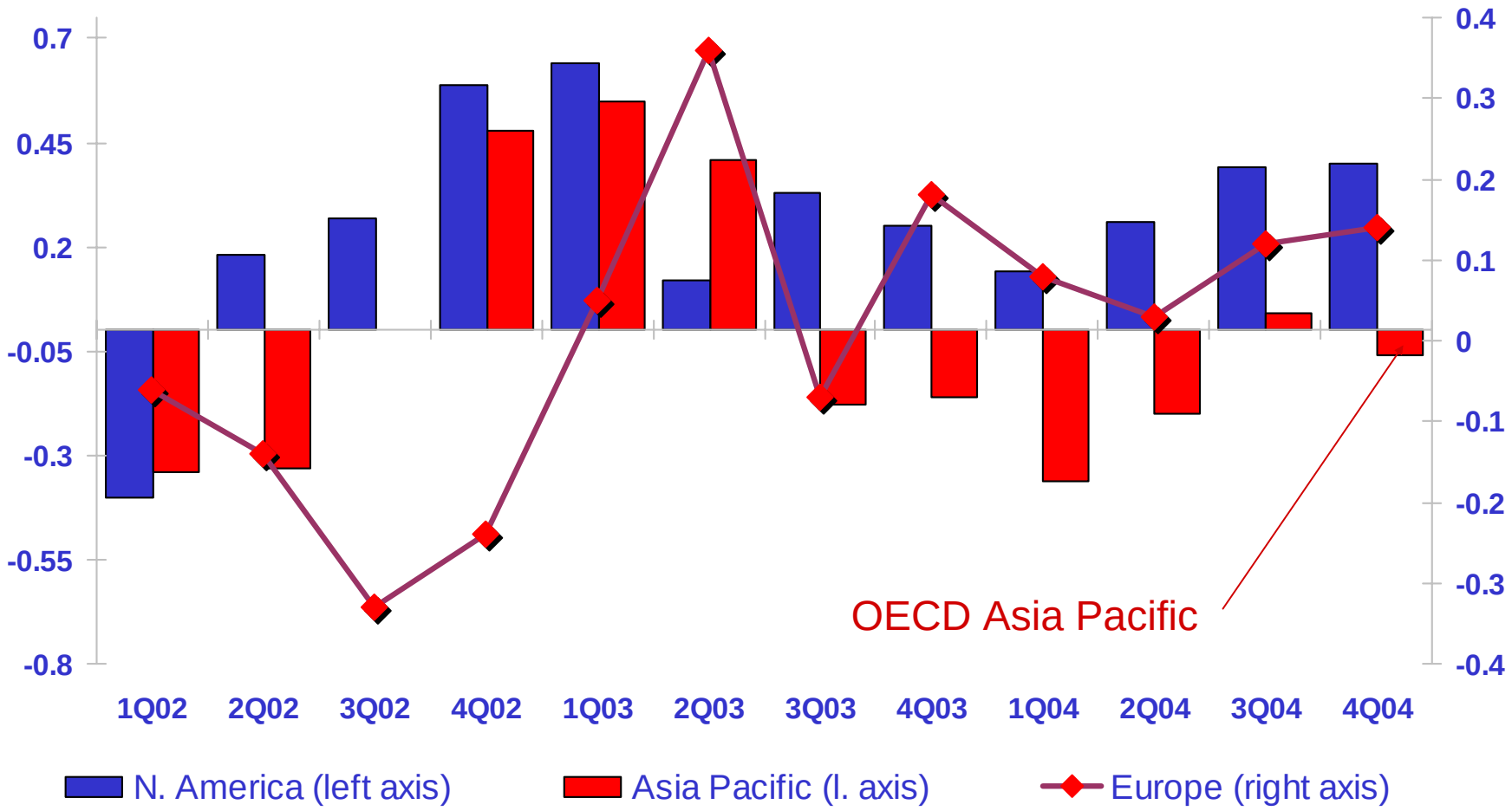
A return to normal or a downward trend in oil demand growth? Rule of thumb: 2% per annum oil demand growth based in 3-4% GDP growth.





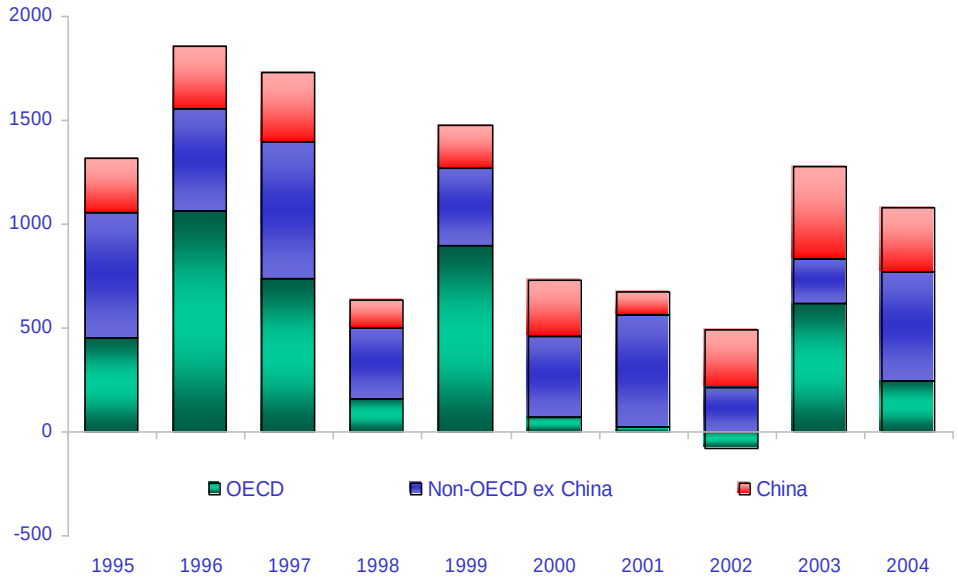
Anemic oil demand growth over last 5 years (0.9 mb/d OECD, 3.3 mb/d non-OECD)

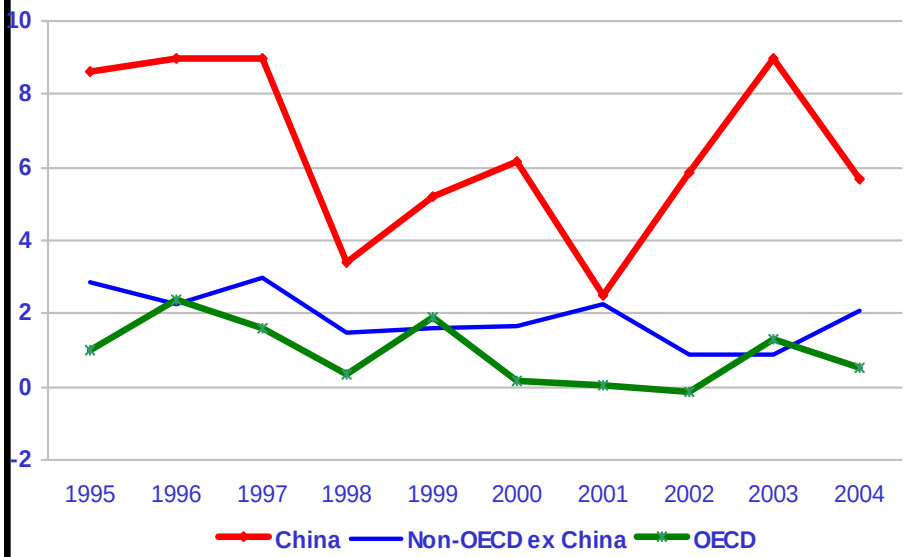
OECD Demand: Asia Bucks the Trend (mb/d)



China – The Engine That Could

OECD oil demand growth has been anemic, Non-OECD excluding China has trended sideways – mainstay has been China

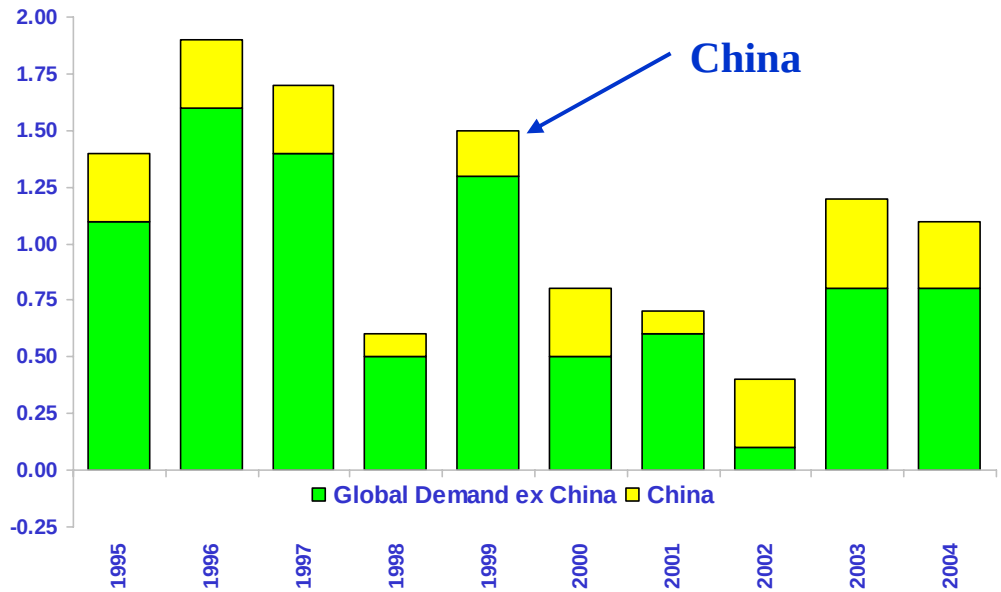




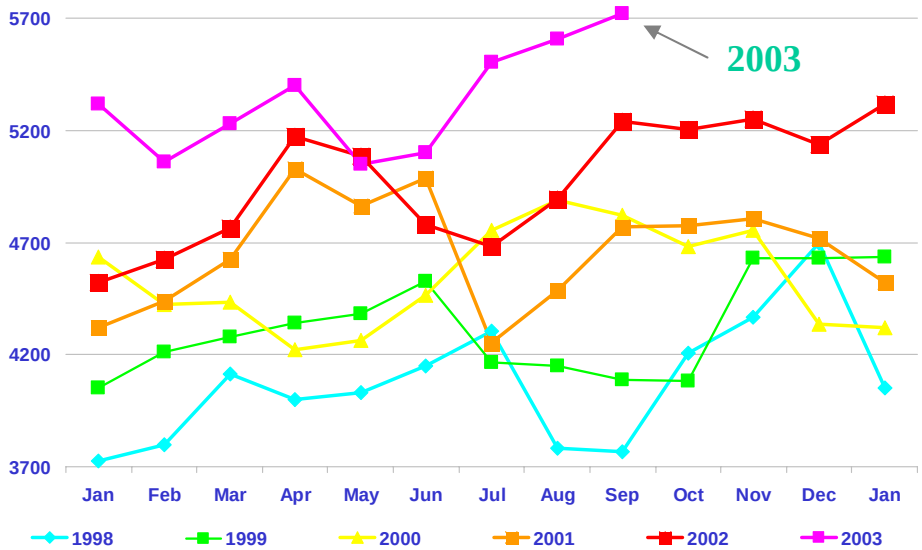
<u>Risk</u>: China may overheating and becoming a "bubble economy". At the same time, the underlying trends are undeniable.

Chinese Oil Demand Growth

Chinese oil demand grew by *1.4 mb/d* over last 5 years vs. 0.9 mb/d for total OECD



Chinese Apparent Demand (kb/d)



Chinese demand has eclipsed Japanese oil demand (5.4 mb/d) in 2003 – with no sign of stopping

Distorting regional crude & product trade patterns

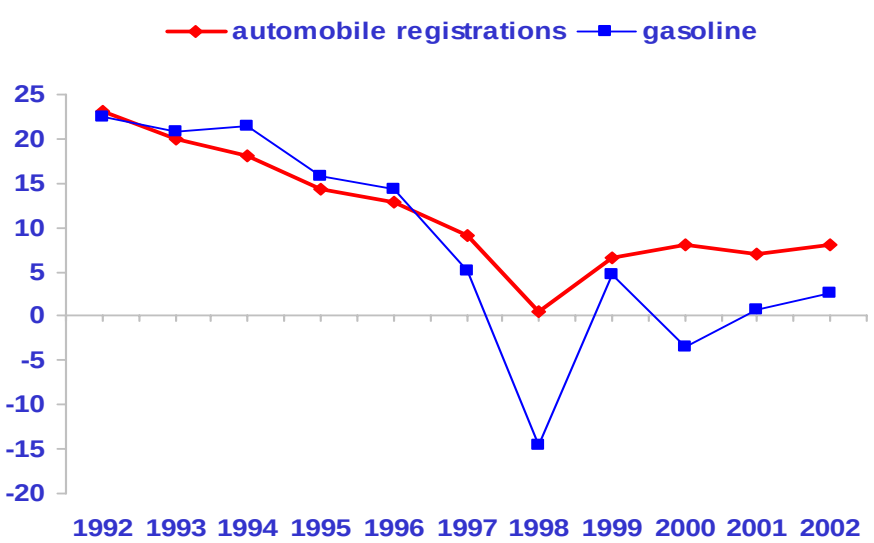
Industrial Demand

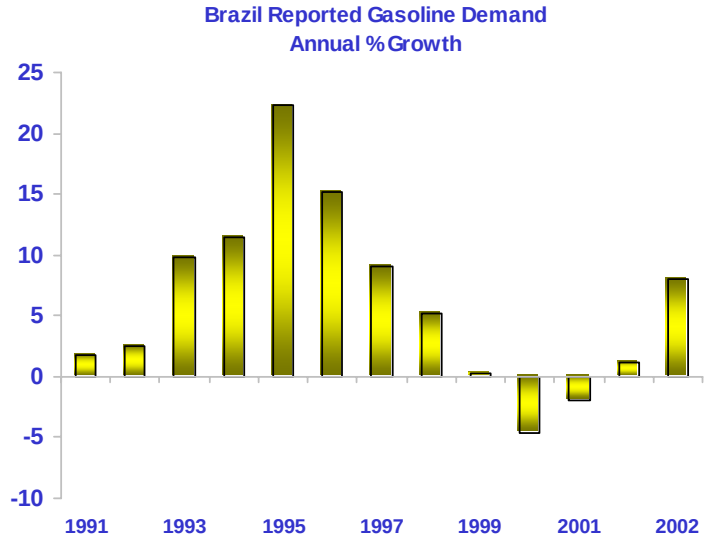
- **Rampant GDP growth contributes to higher oil demand**
  - **Low labour and operating costs, lower environmental and health & safety regulations are attracting investment to China**
  - **OECD is de-industrializing, labour-intensive processing is moving from more expensive non-OECD areas**
  - **As industrial output increase, oil demand rises accordingly**
  - **Significant growth in petrochemical sector**
  - **Trend should continue until greater equalisation in regional and global labour and operating environments**

Gasoline Demand

- **In the past, Chinese gasoline demand was driven my small-engine and moped sales vs. cars**
  - **Car sales & vehicle registrations are increasing**
  - **Driven by emergence of small managerial and ownership class who can afford cars & see them as prestige items**
  - **Supported by infrastructure development – construction of highways and urban freeways**
  - **Constraint: congestion**
  - **Gasoline now, clean burning diesel in the future?**

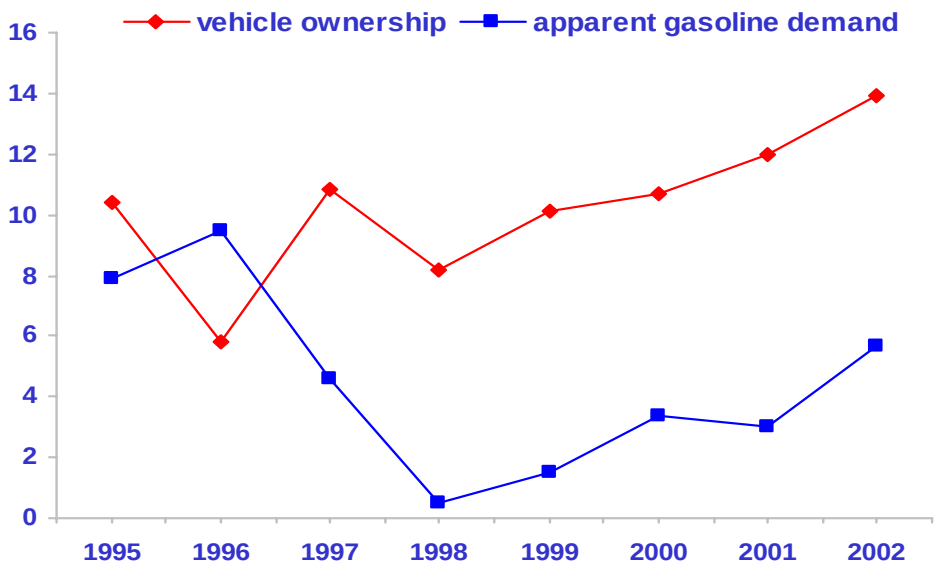
Gasoline Demand Growth Vs. Automobile Sales





Chinese Trend:

Develop like Japan or India?



Utility Demand

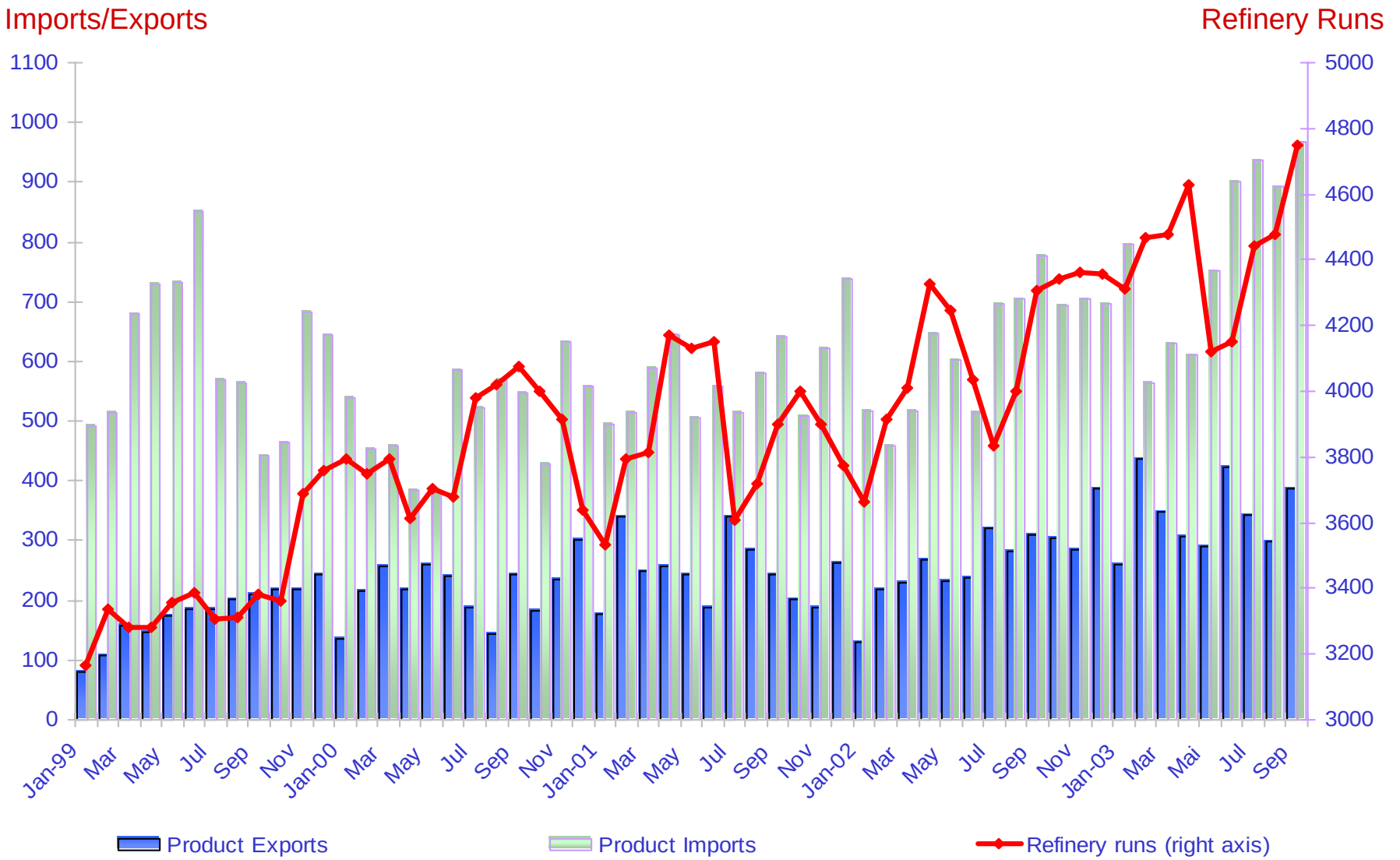
- **Despite expansions in the power sector, China does not have sufficient generating capacity to support rapid GDP growth**
  - **Access to natural gas, LNG is limited**
  - **Problems in coal sector (accidents & polution)**
  - **Hydro and nuclear requires long lead times**
- **Older oil-burning and direct burning units brought back on stream**
- **New facilities (fewer than coal) under construction**

Disaggregating Income Effects On Demand

- **Chinese oil demand is driven by growth in:**
  - ***Transportation sector*** **– car sales & vehicle registrations**
  - ***Utility sector*** **– demand for electricity is outstripping capacity growth (hydro, nuclear, coal, natural gas) contributing to maximization of existing oil-fired facilities, and construction of new plants**
  - ***Industrial sector*** **– shift in jobs and industrialisation from OECD and more expensive non-OECD countries to China**

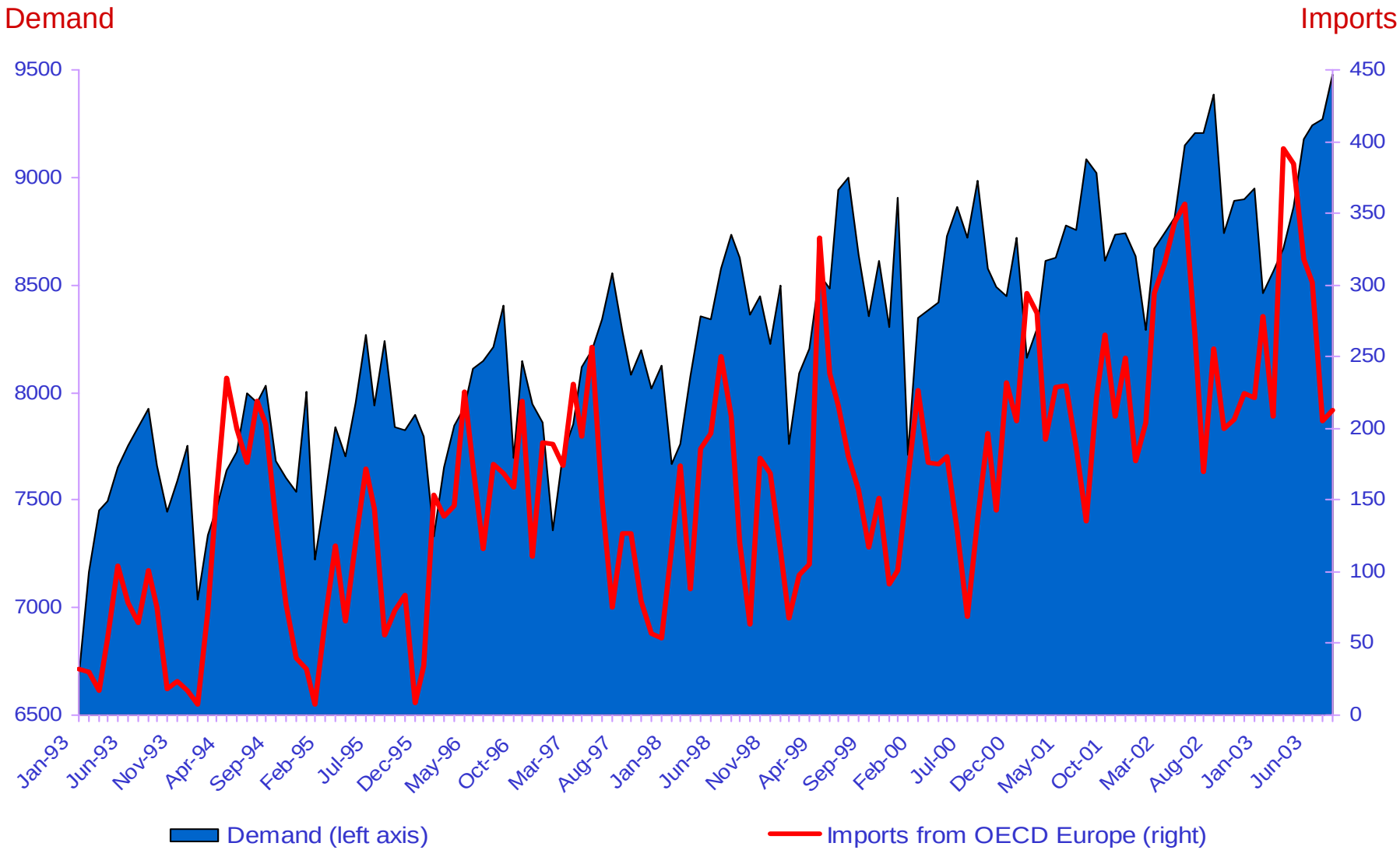
China Refinery Runs Vs Product Imports

(kb/d)



Chinese exports flat, imports and refinery runs steadily increasing

North American Gasoline Demand Vs Imports from Europe (kb/d)

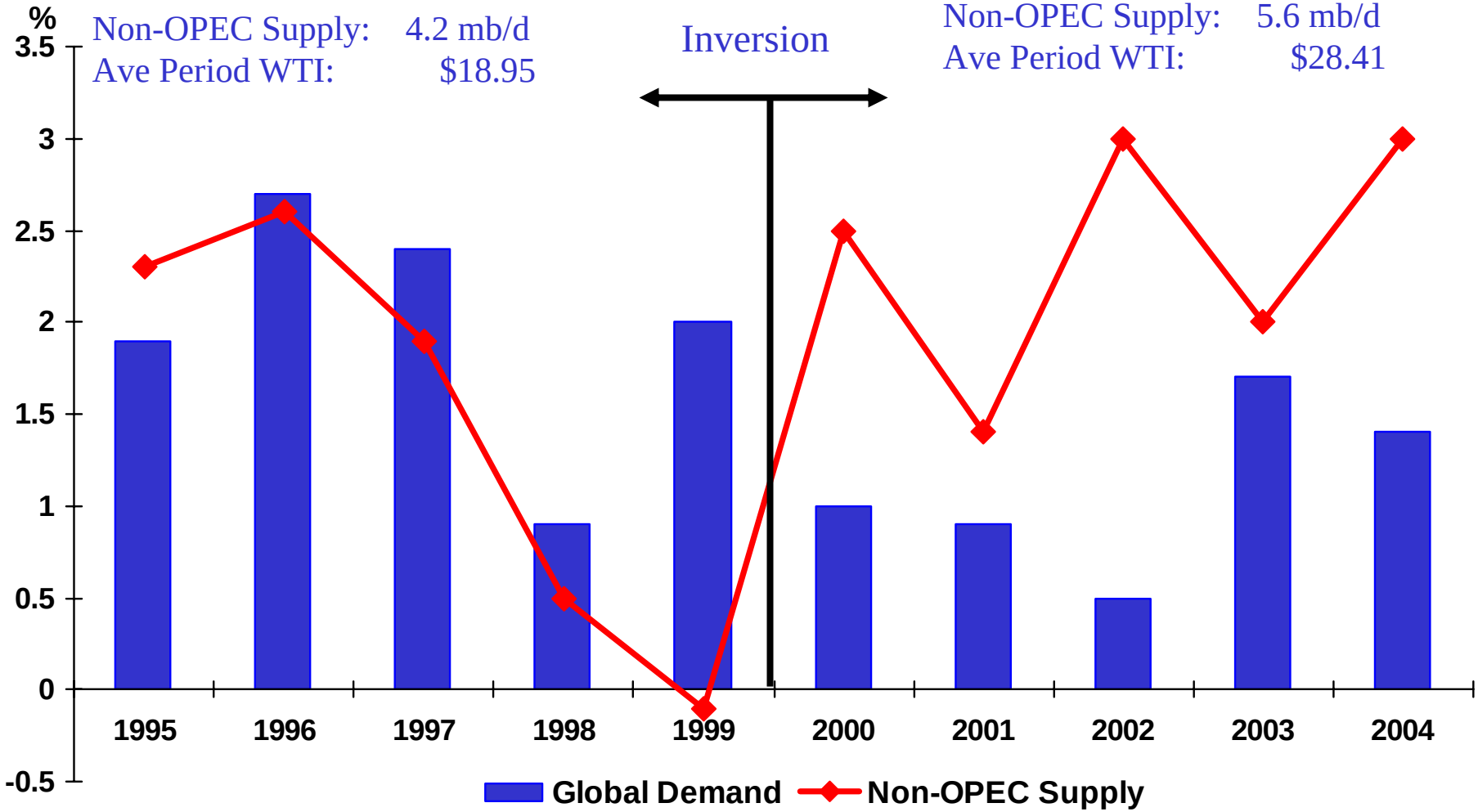


Increasingly N.A. gasoline demand met by EU imports – interlink markets

Global Oil Demand vs. Non-OPEC Supply Growth

Five Year Period (1995–1999)
Global Demand: 7.0 mb/d
Non-OPEC Supply: 4.2 mb/d
Ave Period WTI: $18.95

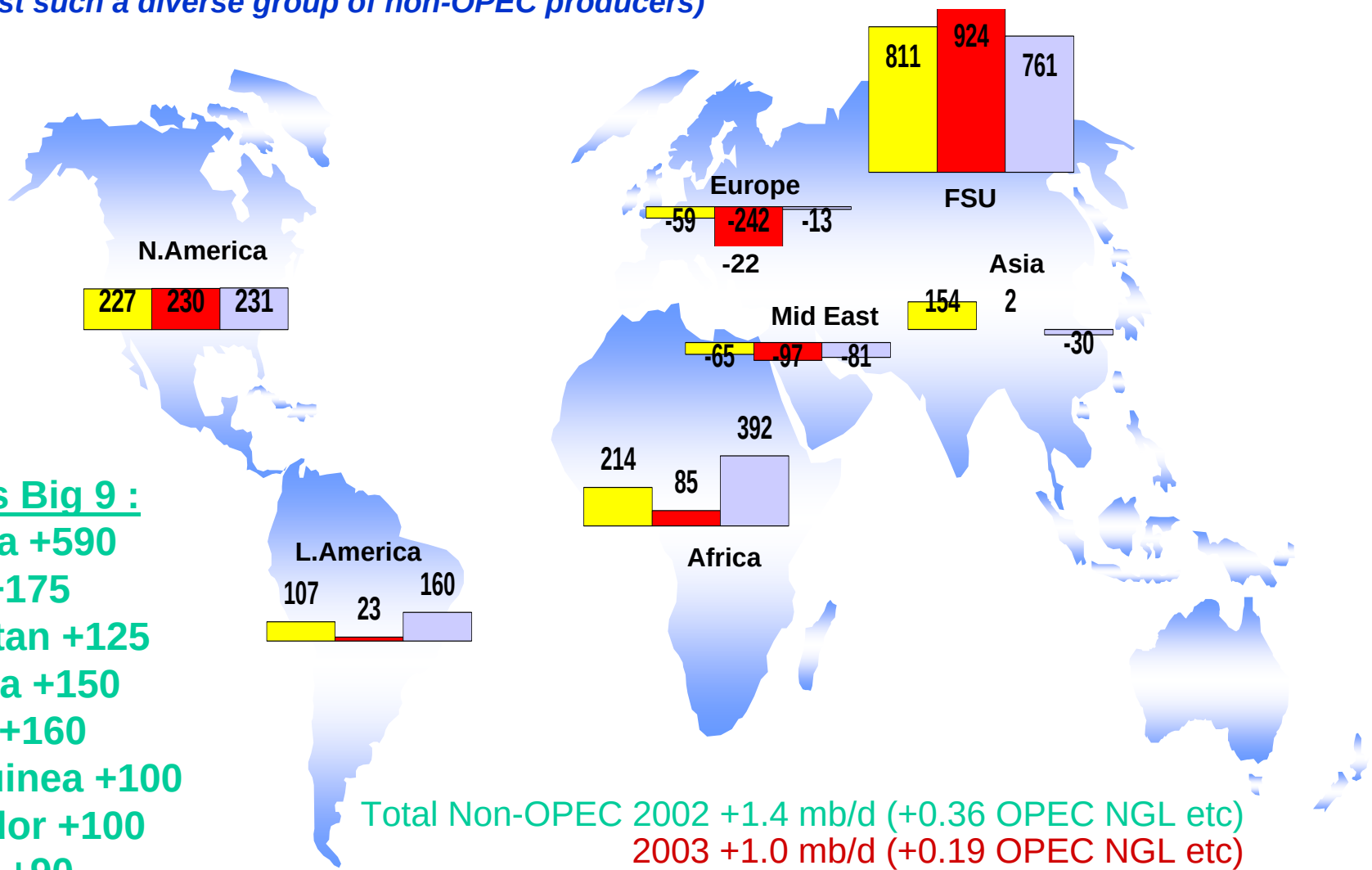
Five Year Period (2000–2004)
Global Demand: 3.0 mb/d
Non-OPEC Supply: 5.6 mb/d
Ave Period WTI: $28.41



Correlation between Price and Demand, Non-OPEC Supply?

Main Non-OPEC Supply Gains 2002/2003/2004

(Difficult for OPEC to engineer constraint amongst such a diverse group of non-OPEC producers)



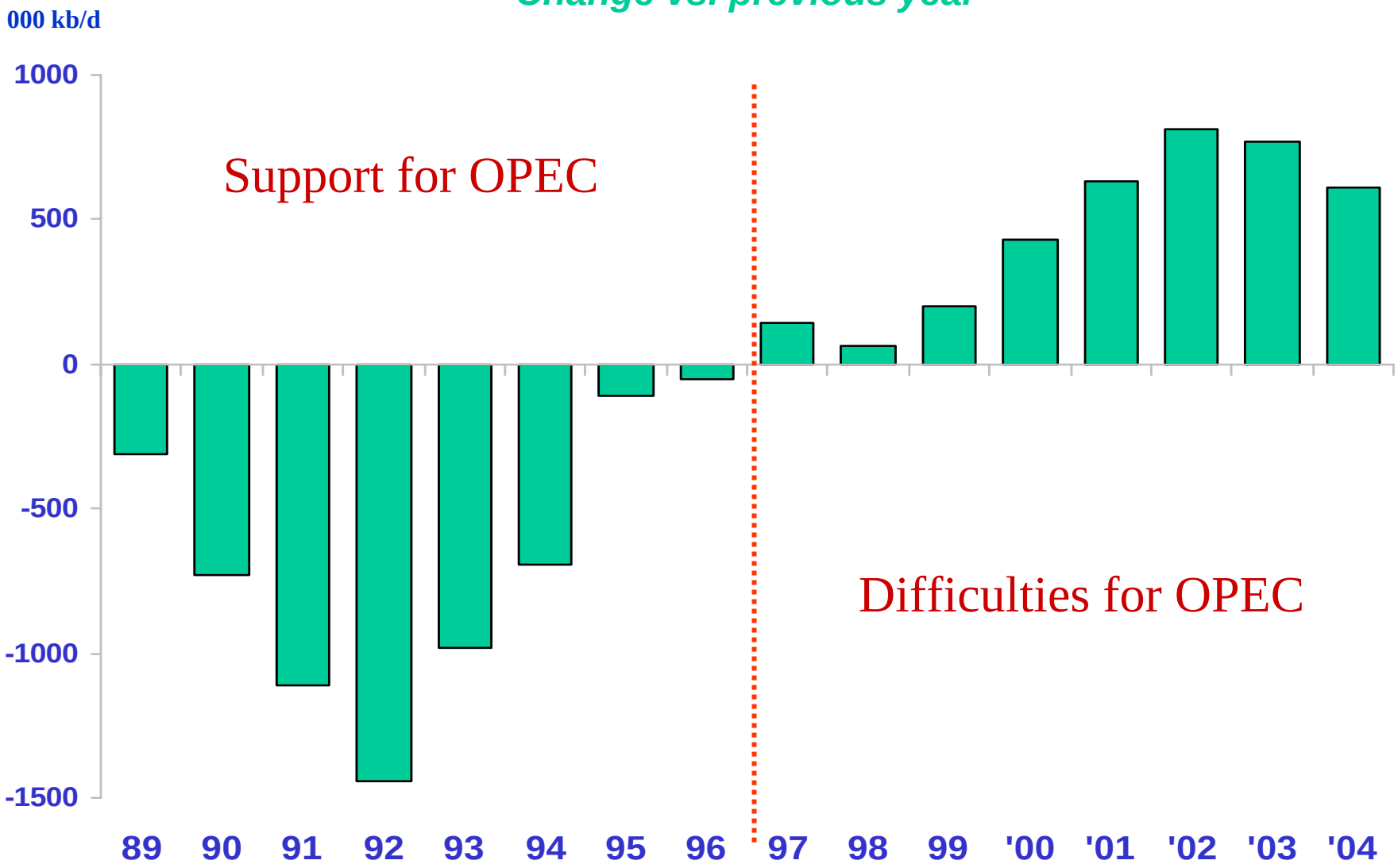
2004's Big 9 :

- Russia +590
- USA +175
- Kaz'stan +125
- Angola +150
- Chad +160
- Eq.Guinea +100
- Ecuador +100
- Brazil +90
- Canada +90

Total Non-OPEC 2002 +1.4 mb/d (+0.36 OPEC NGL etc)
2003 +1.0 mb/d (+0.19 OPEC NGL etc)
2004 +1.4 mb/d (+0.41 OPEC NGL etc)

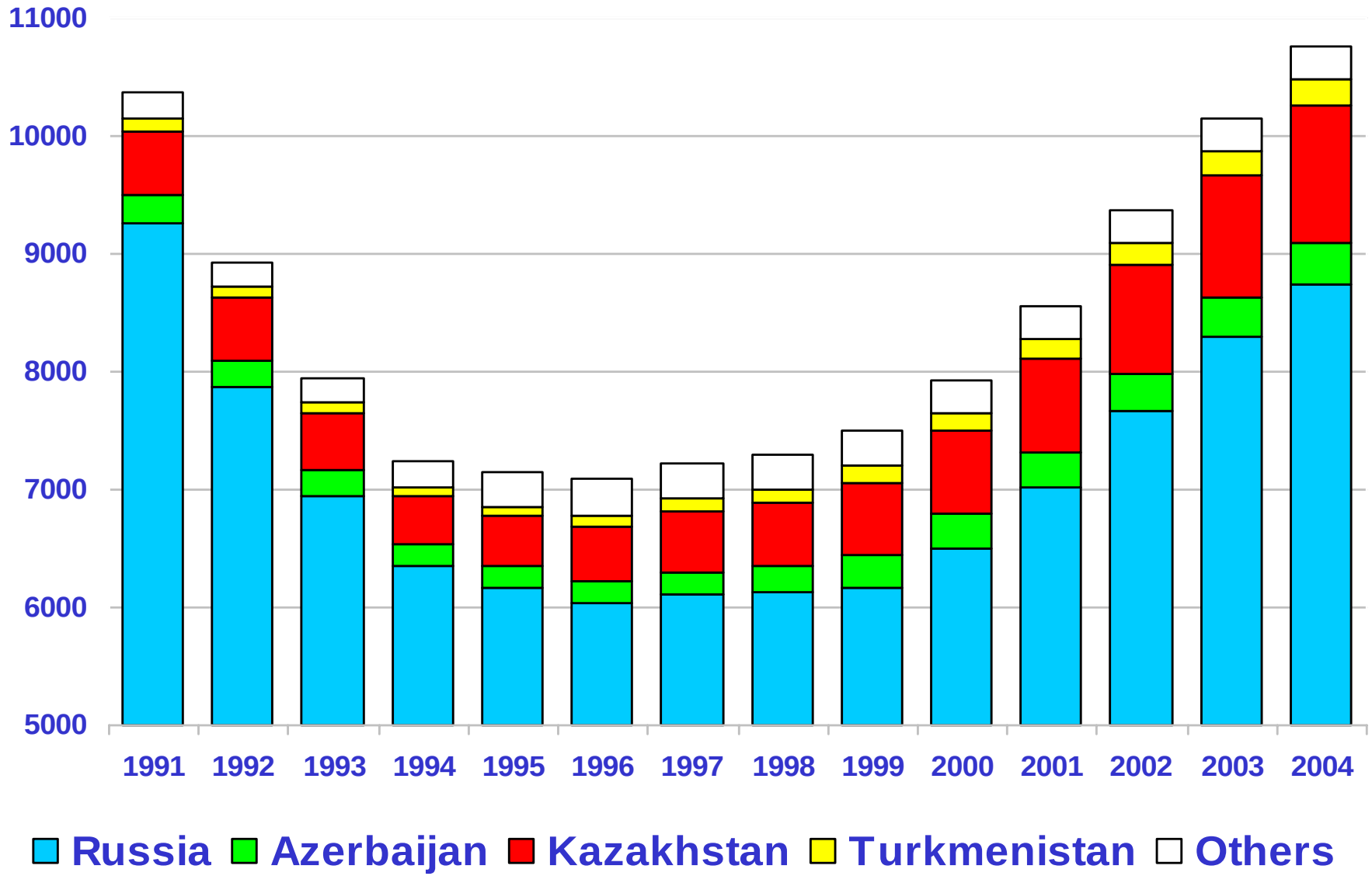
FSU Oil Supply 1989-2004

Change vs. previous year



FSU larger influence on oil market than Iraq

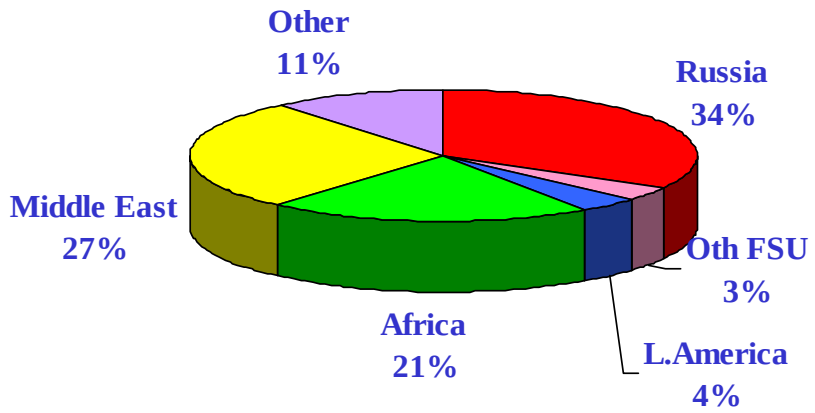
FSU Oil Production 1991-2004



Moving Russian Oil to Market



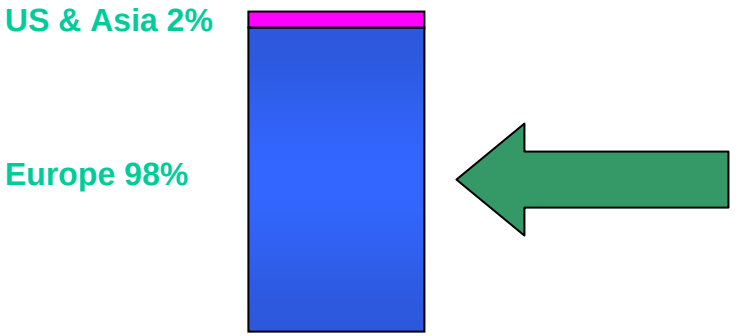
Russian Exports – Europe Predominant



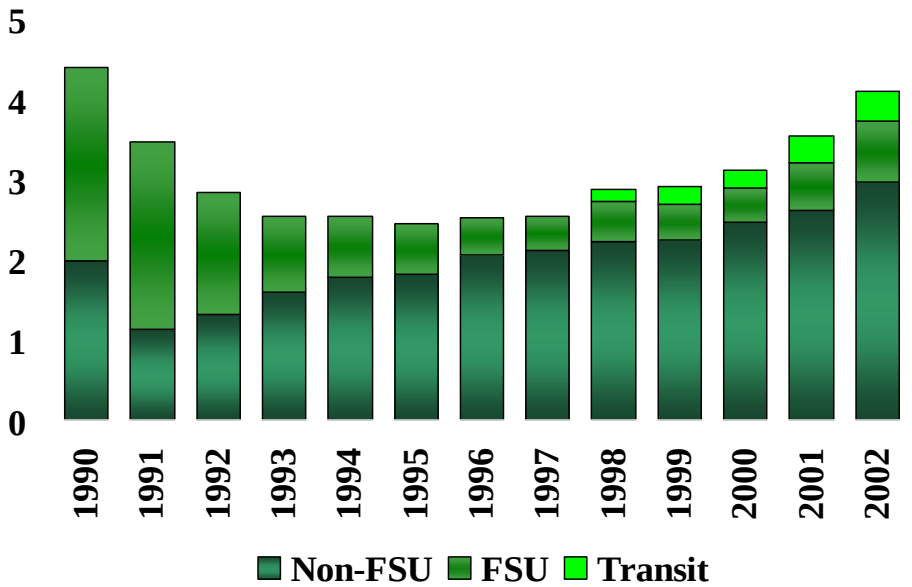
2002 oil exports 15% of GDP & 35% of fiscal revenue

Low internal prices also encourage export maximisation

Diversification into other, increasingly import-dependent, markets a key Russian objective

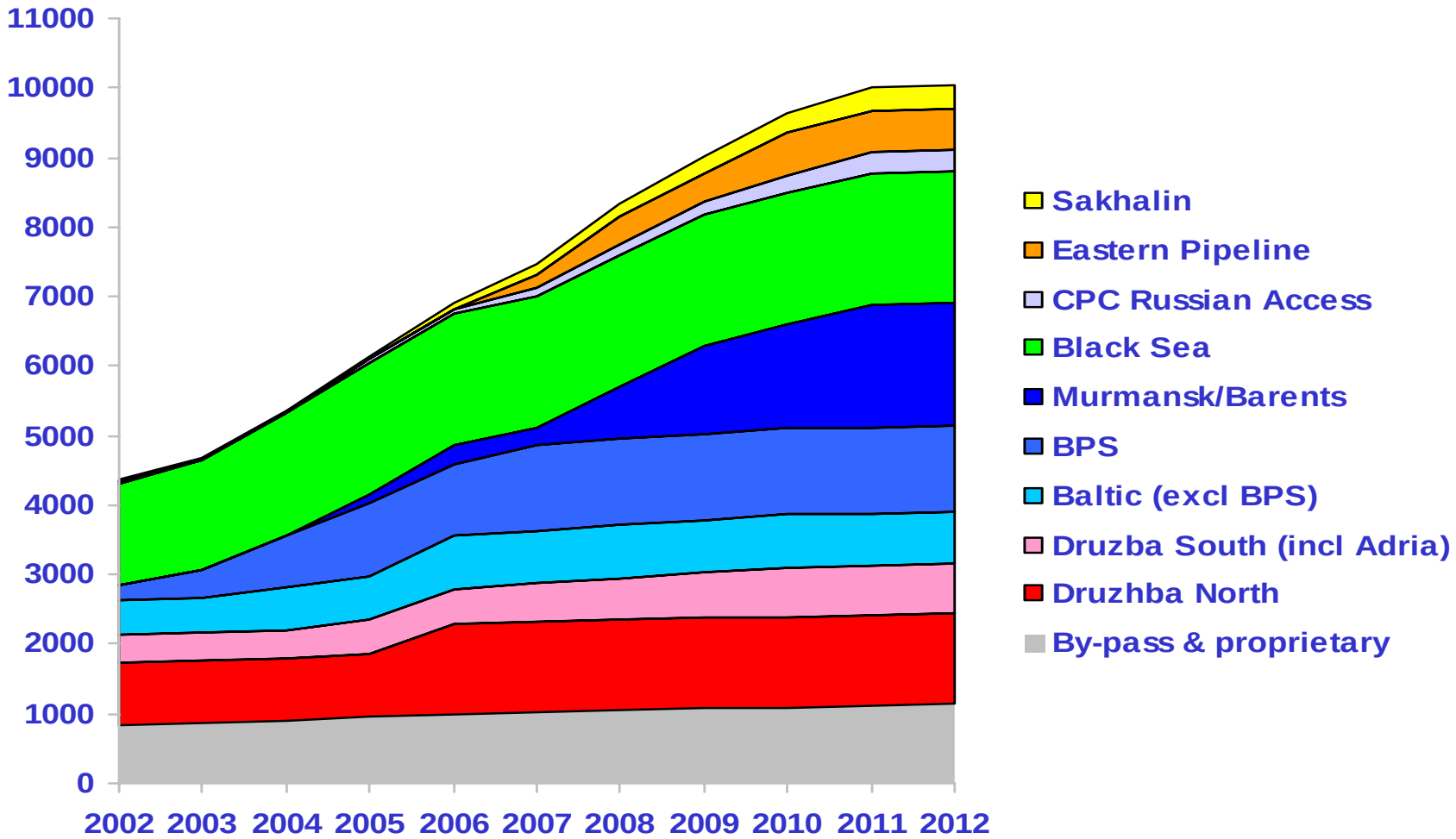


Russian Crude Oil Exports, mb/d



Development of Russian Crude Export Capacity

Export capacity *could be* 2.5 mb/d lower in 2012 if Murmansk and Eastern pipelines do not proceed…
… but this seems unlikely. Capacity constraints unlikely to impede production growth mid-term

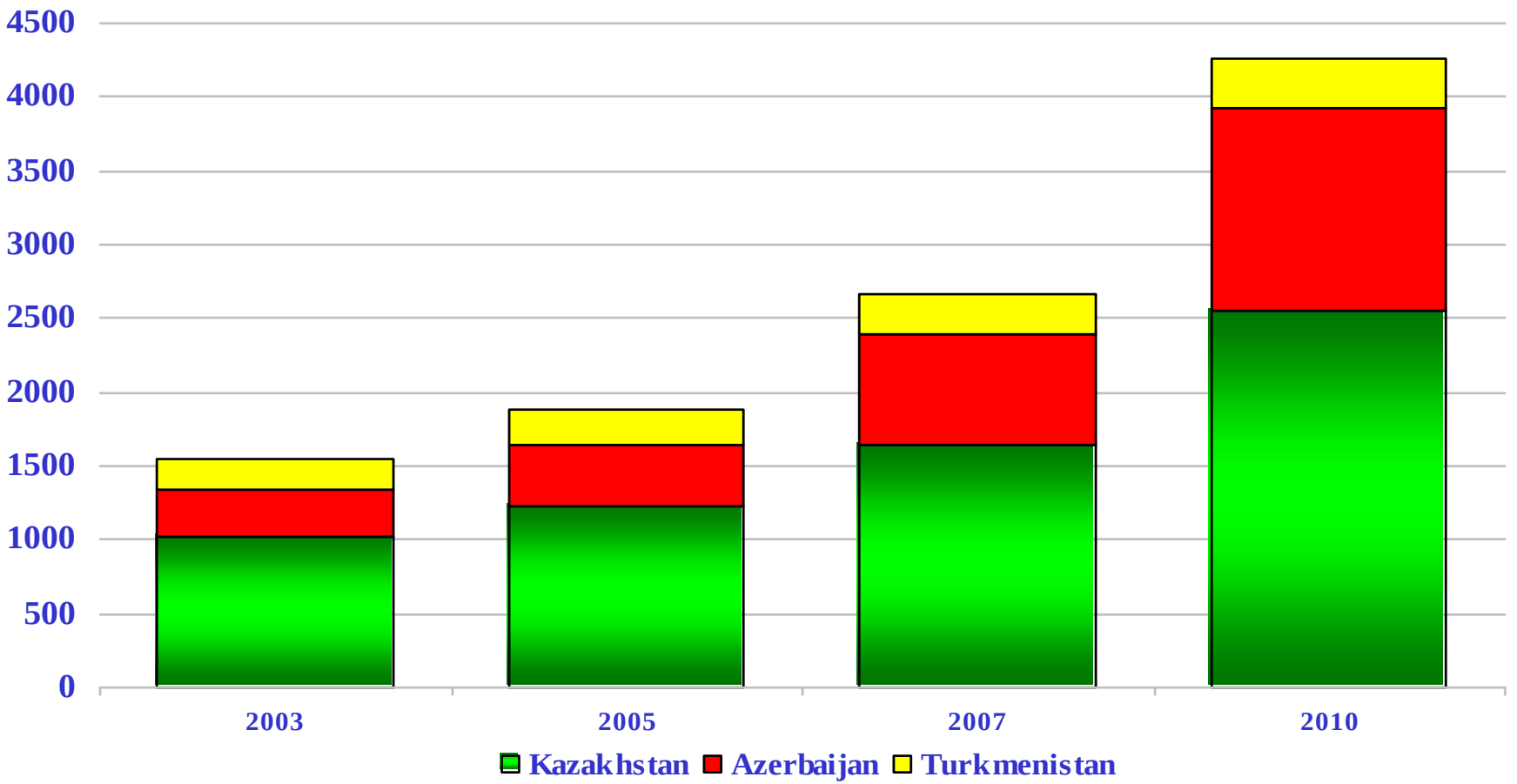


FSU Oil: Vital Statistics

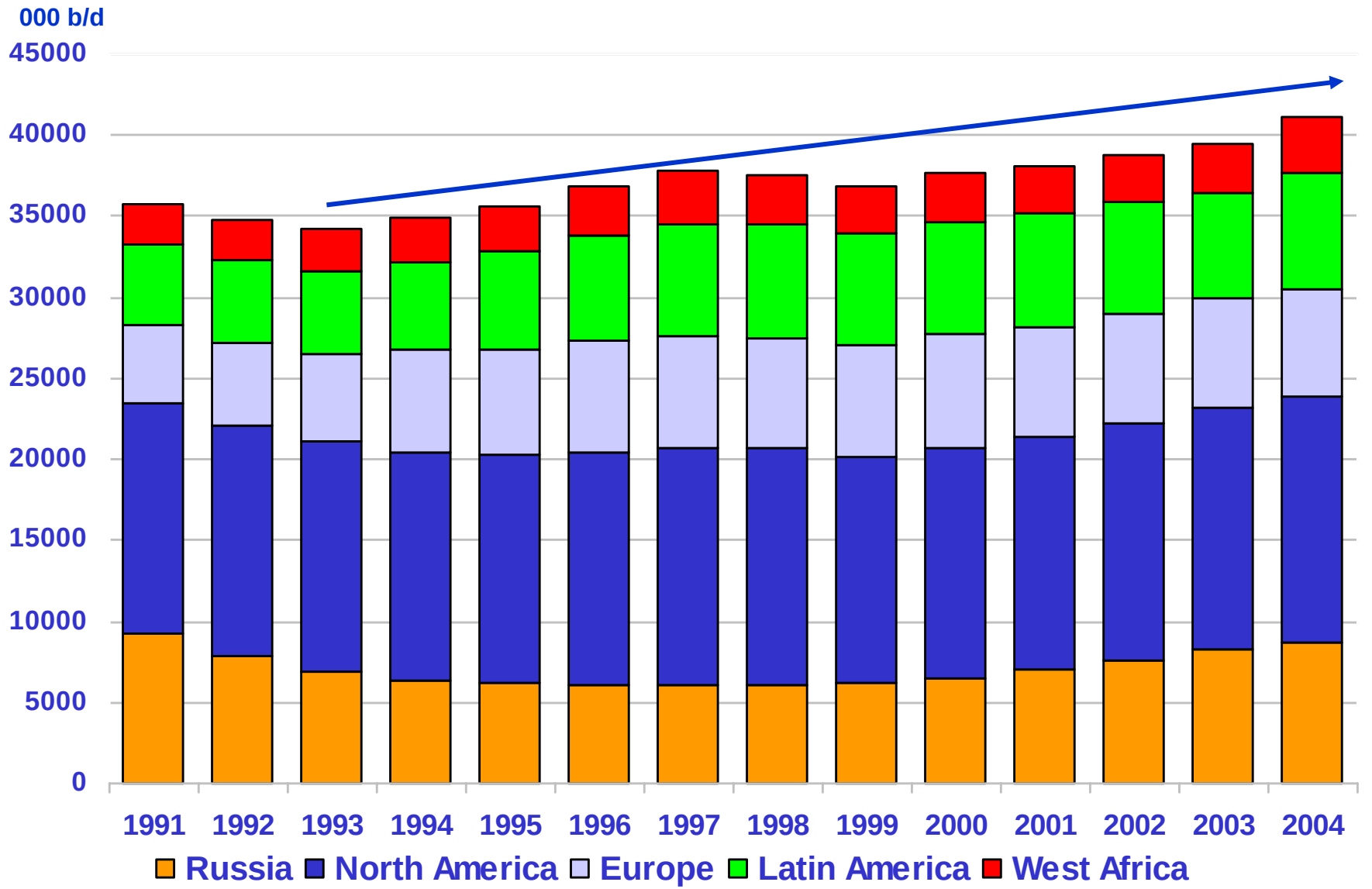
	POPULATION	GDP/CAPITA	PROVEN RESERVES	2003 PRODUCTION
	145 million	$2,865	60 b.bbl	8472 kb/d
	16.7 million	$1,700	9 b.bbl	1026 kb/d
	7.8 million	$885	7 b.bbl	317 kb/d
	4.8 million	$5,500	0.5 b.bbl	204 kb/d

Other FSU – Production Growth

- Kashagan, Tenghiz & Karachaganak fields underpin Kazakhstan growth
- CPC pipeline to increase from 600 kb/d to 1.3 mb/d by 2015
- +1 mb/d from Azeri-Chirag-Guneshli fields to move via planned BTC pipeline
- Turkmen reserve base & active foreign exploration effort supports modest rise in output



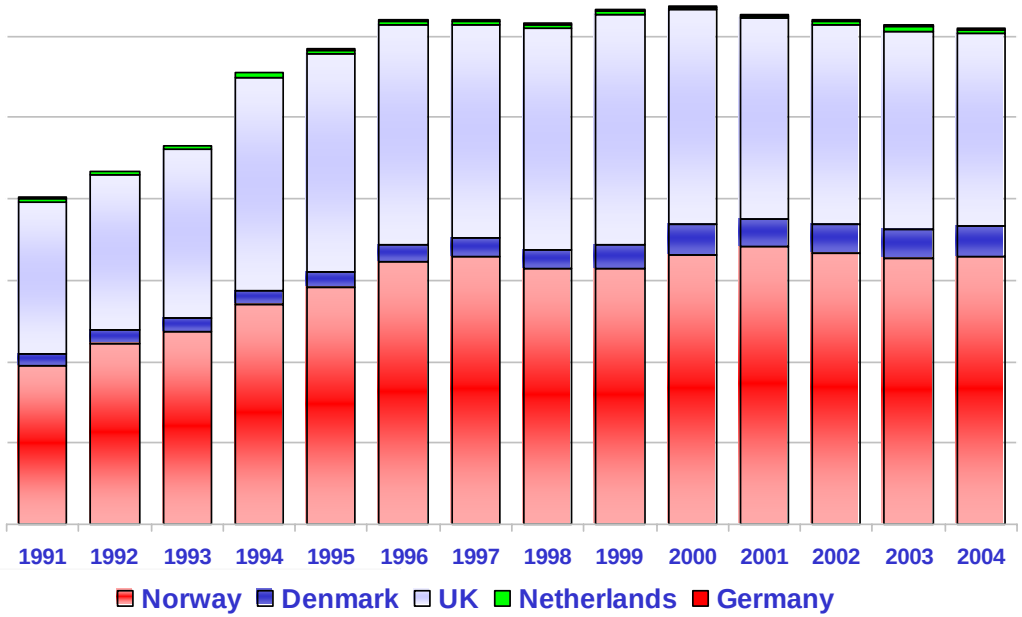
Atlantic Basin Oil Production 1991-2004



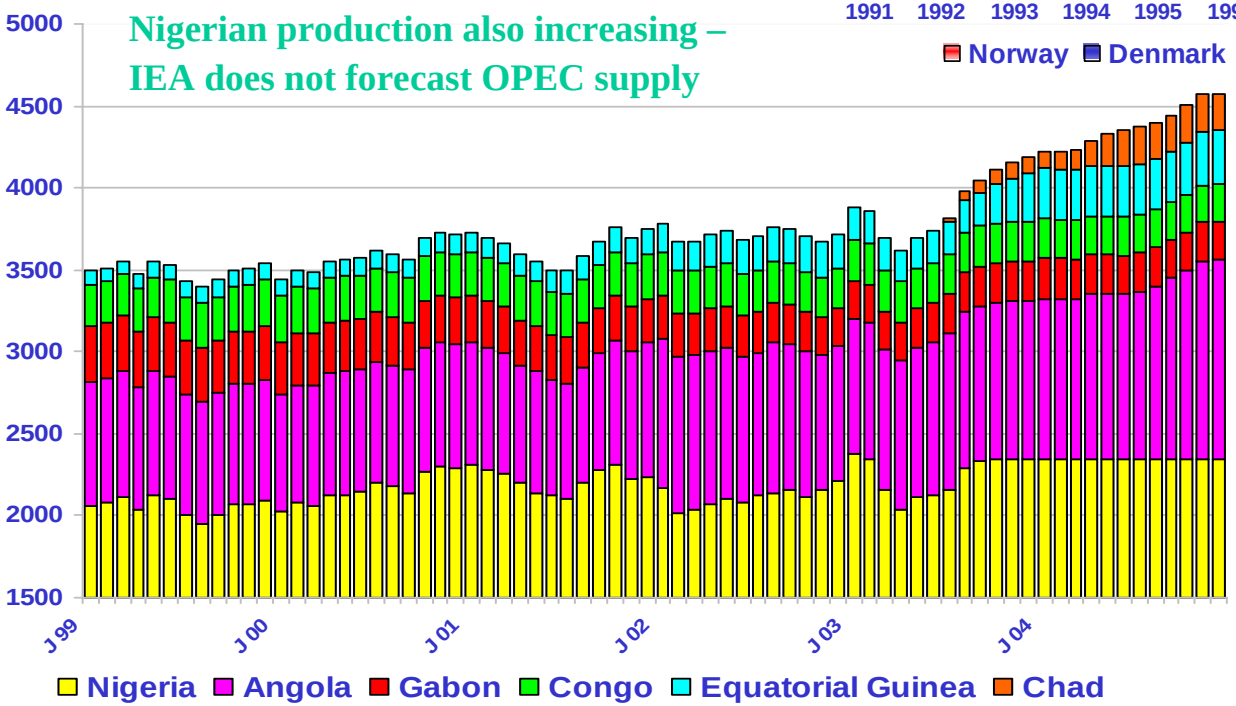
Atlantic Basin production is on a steady upward trend – Russia, Caspian, West Africa, Canada …

Atlantic Basin Supply

North Sea: slow decline, partly offset by increased liquids production

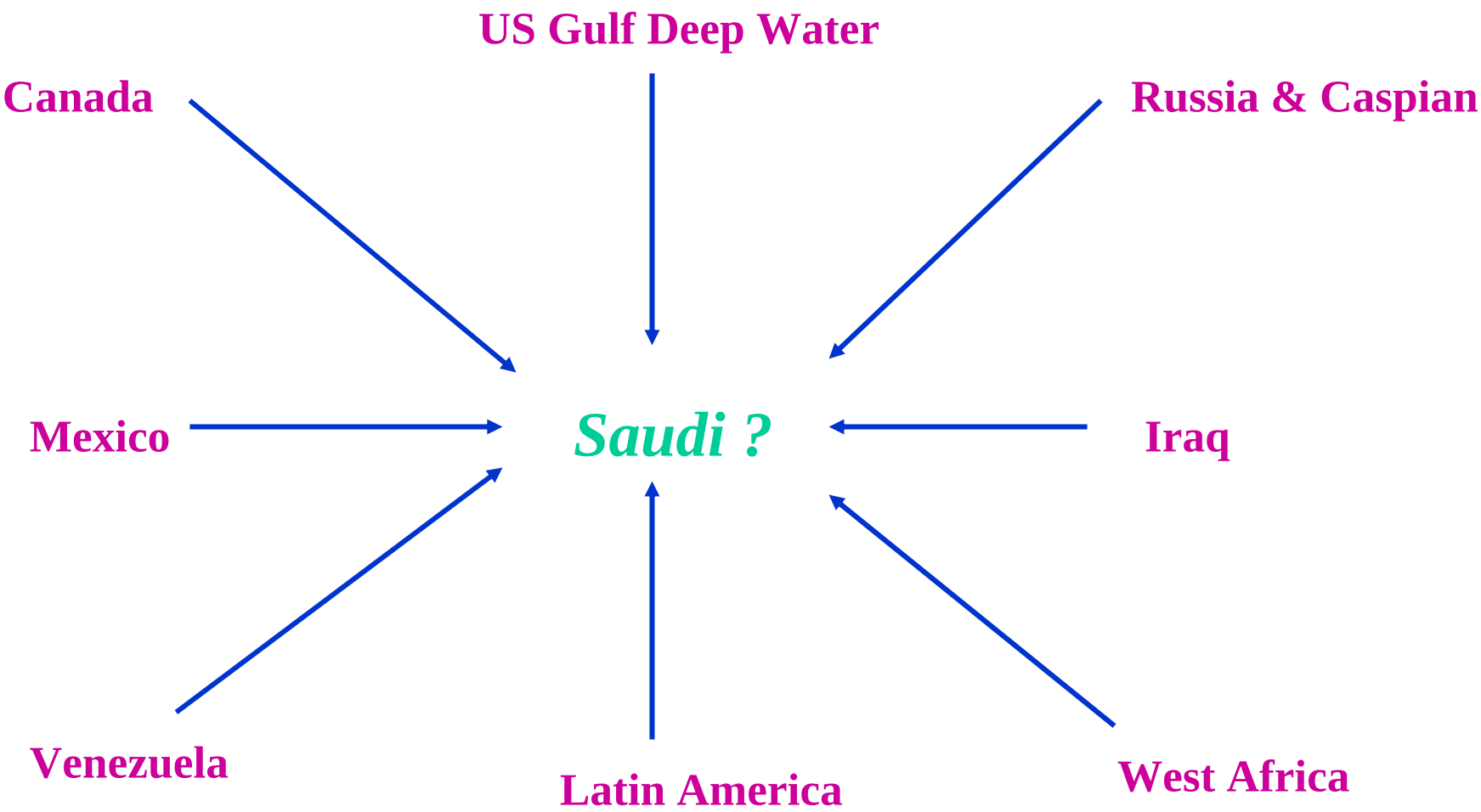


Nigerian production also increasing – IEA does not forecast OPEC supply



Nigeria assumed flat at pre-disruption levels through 2004 due to political unrest

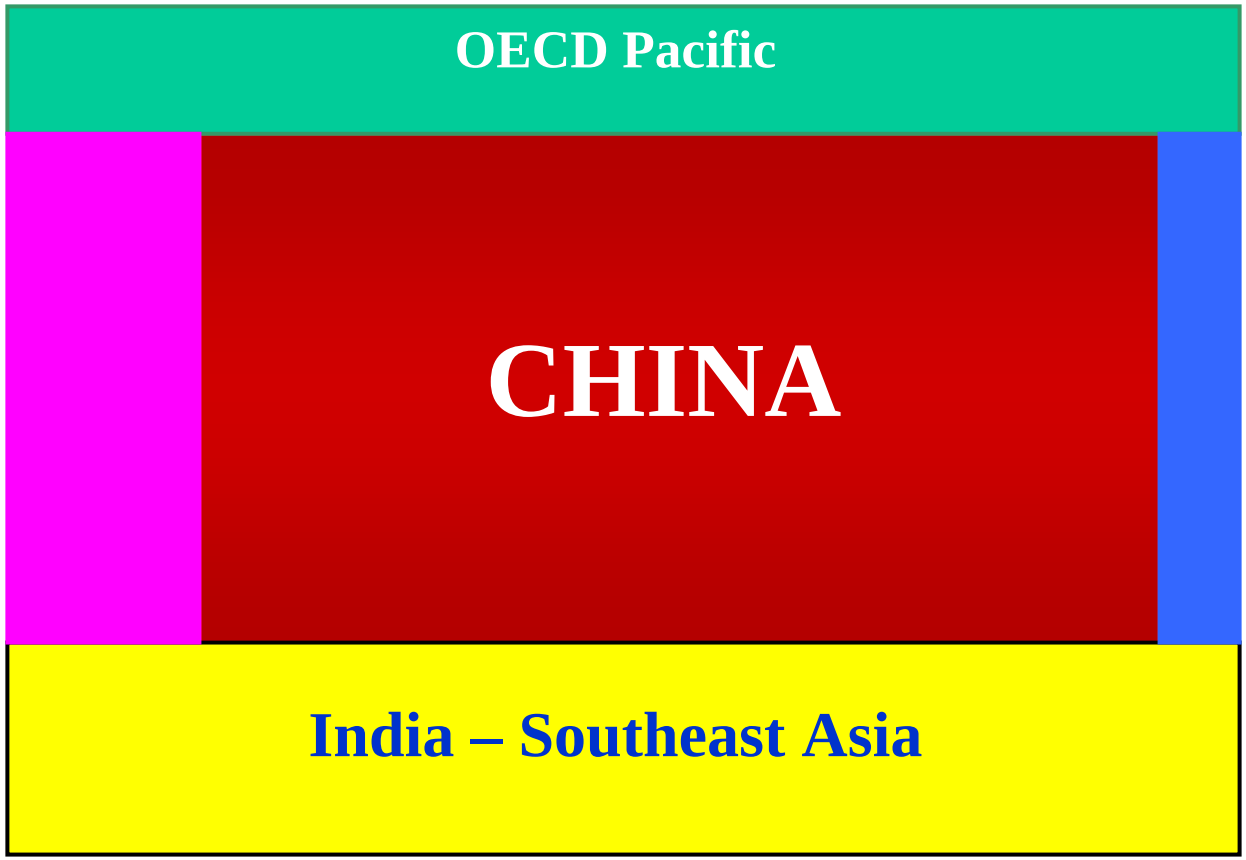
Atlantic Basin – Supply Push



Increasing supply pressure on Atlantic Basin – highly competitive "buyers" market

Saudi is "swing" marginal supplier – crowded out? Security of Demand: +60% Asia

Pacific Basin – Demand Pull



Middle East

California

Increasing demand pressure on Pacific Basin – highly competitive “sellers” market

Declining regional production entails Atlantic Basin will have to be “pulled” to region

Few options: conserve, diversify or become more dependent on Middle East oil

Shifting Trade Patterns

➢ Atlantic Basin

- **Flat demand, growing supply**
- **"*buyers*" market**
- **Many suppliers, few buyers**
- **Supply "*push*"**
- **Middle East – swing supply**
- **Extremely competitive – *discount* price structure**

➢ Pacific Basin

- **Surging demand, declining supply**
- **"*sellers*" market**
- **Few suppliers, many buyers**
- **Demand "*pull*"**
- **Middle East – highly dependent**
- **Extremely competitive – *premium* price structure**

Atlantic Basin supply will be "*pushed*" out of region – price falls to China parity (Asian price less freight)

Atlantic Basin supply will be "*pulled*" to Asia – with few supply alternatives, producers extract premium vs. Atlantic Basin (freight less discount)

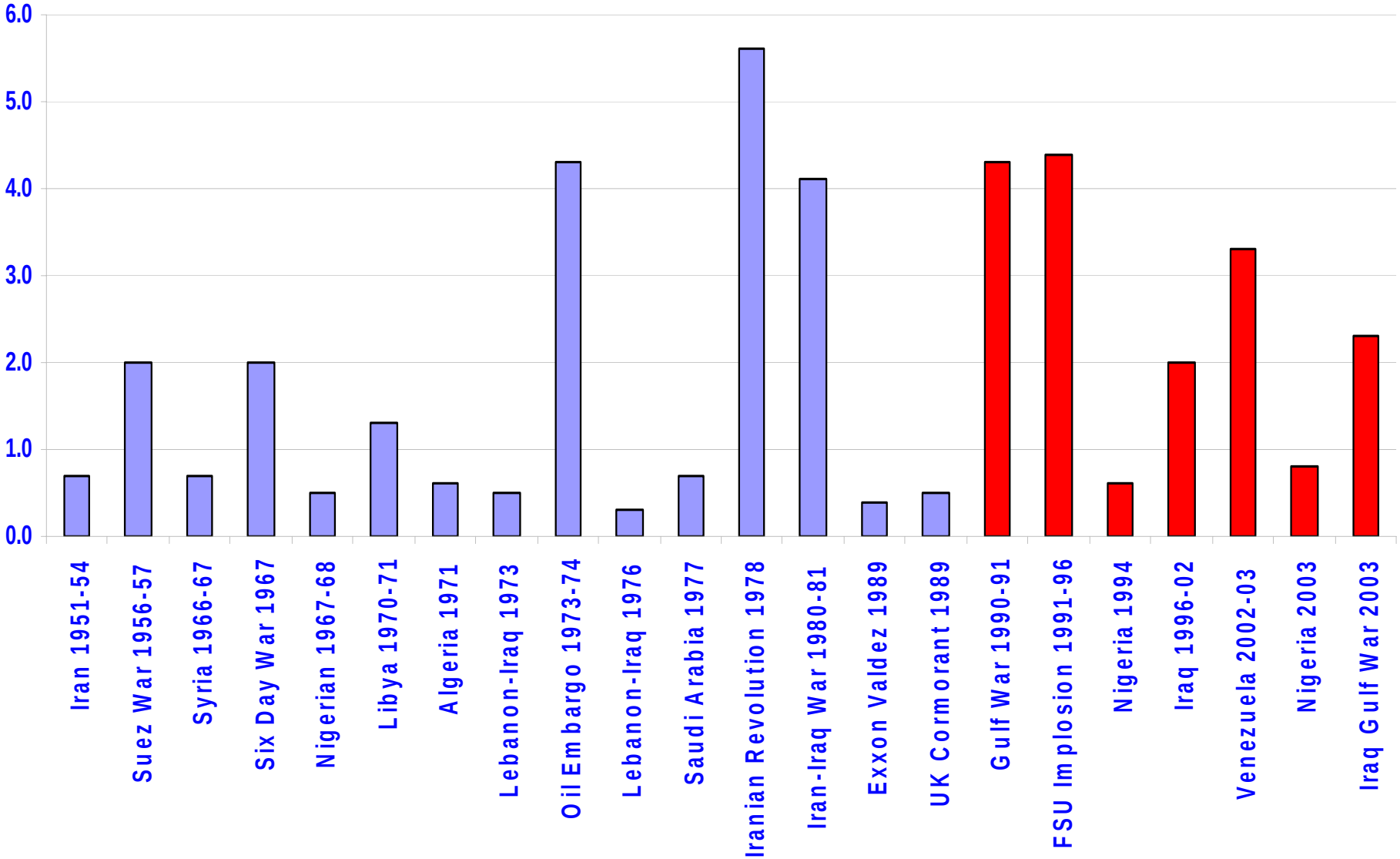
Anatomy of a Supply Disruption

- **No quick or easy answer – depends on a number of market factors**
  - **Duration – longer potentially larger impact (dirty bomb)**
  - **How much volume lost, impacted (Saudi Arabia)**
  - **Available surge & spare production capacity**
  - **Location of disruption (AG, Straits of Malacca)**
  - **Inventory levels prior to disruption (tight, ample)**
  - **Sudden or longer lead-time to get ready & plan**
  - **What type of crude, product impacted**
  - **Situation contained, or could spill-over & become worse**
  - **Political embargo, social upheaval or accident (Exxon Valdez)**
  - **Seasonality – worse if happens during peak demand (winter)**
  - **Economy – strong, fragile, teetering on the edge**
  - **Producer-consumer dialogue (co-operation)**
  - **Emergency preparedness - availability of strategic stocks**
  - **Demand constraints (gasoline)**
  - **Fuel-switching capabilities at the margin**
  - **Developments in other energy markets (nuclear, natural gas delivery)**

Anatomy of a Supply Disruption - 2

- **Prices could spike – doubling (?)**
  - **Role of oil in economy today much less than in the 1970's**
  - **Limit on high oil prices could go before government action (strategic stock release, emergency rationing) and inevitable price rationalization**
  - **Physical trading would all but stop during period of initial crisis (prices surge) to let market digest news and gain a sense of direction**
  - **Price surge has a negative impact on GDP – (rule of thumb: - 1% GDP for every $10 increase in price**
  - **Initial shock potentially most damaging (imposition of a tax – cause reassessment of behavior)**
  - **Price spike important part of the rebalancing, adjustment process**
  - **Price effects on demand asymmetric – larger negative impact of price spike than positive contribution of a subsequent drop in prices (replace older, less energy efficient stock; retain higher fuel efficiency standards)**
  - **Panic and hoarding: feed on themselves – even if not real physical shortage, perception of looming shortage can create it (everyone rushes out and fills automobiles, buys food so shelves are bare)**

Major Supply Disruptions 1950-2003
- Peak Loss in Mb/d -



Counting New Zealand Sheep



In the past two decades sheep numbers have fallen from 70 million in 1982 to around 30 million now … the big question is whether sheep farming in New Zealand is going out of fashion.

Since the last livestock census in 1996 there has been much heated debate about how many sheep are actually in the fields … estimates have fallen far below the official estimates.

Just how much numbers have dropped is the source of all the controversy. The wool exporters say there are only around 38 million sheep left in New Zealand. The statisticians are holding firm at 44 million.

So, where are the missing 6 million sheep?

Tony Brennan from the New Zealand Wool Board Economic Services is adamant they are still out there … somewhere.

What we've got is we've got a situation with a wet season. The sheep are very slow to get shorn because they're wet…

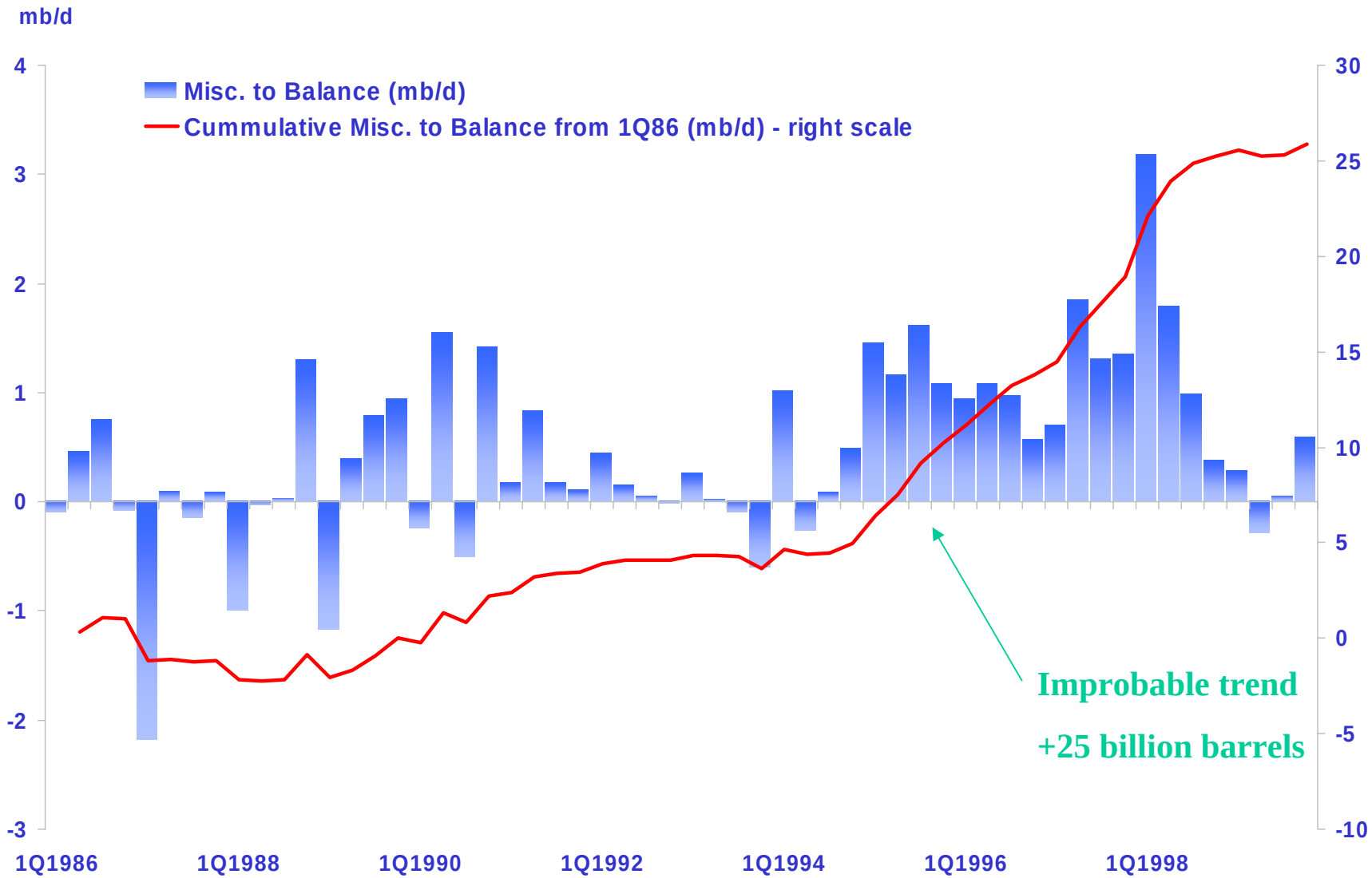
And how do “missing sheep” relate to the oil market you might ask …

- Well … the oil market may have similar problems?
- Commodity markets are fraught with commercial sensitivities
- While customs officers, and the tax man, may want data transparency, just about everyone else wants everyone else’s data to be transparent, but NOT necessarily their own
- There are real problems in counting sheep … even for insomniacs
- Sheep don’t stand still … they move and sometimes for strange reasons (dead people vote in elections, and make up a portion of the census, especially when federal tax money is at play).

Commodity Supply-Demand Balances

- **World Bank estimates:**
  - **Oil** **<1%**
  - **Sugar** **3%**
  - **Grains** **5%**
  - **Copper & aluminum** **10%**
  - **Bananas & other vegetables** **>10%**
  - **Coffee** **25%**
  - **Coal** **???**
- **Given that oil is the single largest commodity traded by value, a potential 500 kb/d imbalance IS astounding (but not be good enough – marginal barrel sets the price; OPEC supply management policies)**

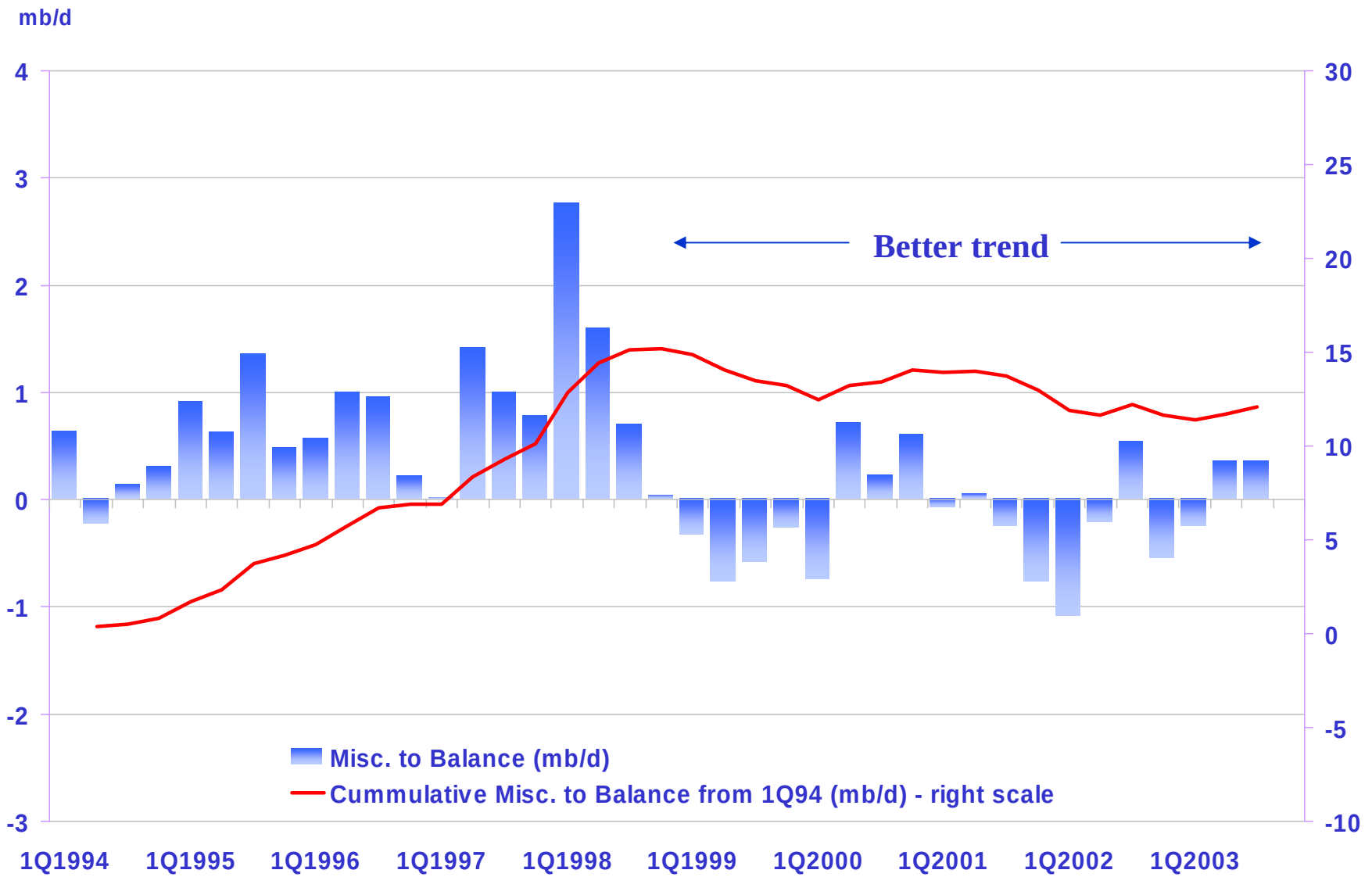
Misc. To Balance to 2000 - Absolute & Cumulative (mb/d)



Misc. to Balance: statistical error or build in unreported, non-OECD stocks?

Misc. To Balance Absolute & Cumulative (mb/d)

OMR 13 November 2003 – Data 1Q1994 to 3Q2003



Baseline adjustments for "unobserved demand" – trend is "reasonable"

OPEC's new Mantra – Managing Stocks

LONDON - (Dow Jones Newswires 09/30/2003)- OPEC fired a rhetorical shot at claims its latest output cut will thwart a much-needed build in oil stocks in consumer countries, contributing to oil market volatility and higher prices.

Instead, the recent price swings are the product of a "new norm" as the industry cuts back on oil inventories to streamline operations and cut costs, the Organization for Petroleum Exporting Countries News Agency said Tuesday.

"Until all market participants accept the new norm for a minimum operating level, the old measure will continue to affect market psychology and increase price volatility," OPEC news agency said.

… The U.S. Department of Energy says that 270 million barrels is the minimum needed to keep oil supplies flowing normally. Current levels are around 6 million bbl above that. *But OPEC says that figure could be too high.*

"There is a need to reevaluate the accepted minimum operating level in light of the recent industry trend," OPEC news agency said.

And it claims backwardation in the market - where earlier-month prices are more higher than later months, deterring inventory builds - isn't caused by an oil shortage, but by the market's misunderstanding the new dynamic.

Thank You

Klaus Rehaag

Head, Oil Industry and Markets Division

Editor, Monthly Oil Market Report

International Energy Agency

Paris, France

Oilmarketreport.org