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OPEC would like to assure the distinguished delegates to the IMFC of the Organization's ongoing commitment to oil market stability, ensuring a regular supply of oil to consumers at price levels which are equitable not only for the world economy and consumers, but also to provide adequate future supply and a reasonable income for its Member Countries.

The recent economic data continues to point to a slowdown in global industrial output, leading to uncertainties and increasing risks to real growth. These include high unemployment and record-levels of sovereign debt in some of the developed countries, along with potential overheating in the major developing economies and increasing risk of inflation. Indeed, a deceleration of economic growth can be seen in some major economies. Among the developed countries, the US has experienced unexpectedly low GDP growth in the first half of this year. The Euro-zone continues to be weighed down by the sovereign-debt crisis, which is having a negative impact on the economy via the growing magnitude of austerity measures in some countries in the region. With Japan still suffering from the disasters that hit the country in March, the recovery in the remainder of the year is likely to be sluggish, with the strong yen less supportive for the economy. Developing Countries continue to try to strike the right balance between their needs for a growing economy and lower inflation levels at the risk of an undesired economic slow-down. All these have led to revisions in the forecast in world economic growth in 2011 to currently stand at 3.6%, with the major downward adjustment coming from OECD economies. For 2012, the forecast for world economic growth now stands at 3.9%.

After enjoying a relatively stable period for most of last year, crude oil prices have been very volatile in 2011. Having peaked at over $120/b due to fears of a supply shortage following the onset of the crisis in the MENA Region, crude oil prices plunged sharply in early May as disappointing macroeconomic data triggered a speculative sell-off in the futures markets. Both WTI and Brent experienced a correction of almost $17/b in the first week of May, the sharpest weekly decline on record. Since then, crude oil prices have remained volatile with a general pattern of steady rises followed by sharp drops, similar to those observed in other commodities, as the market has been buffeted by speculative pressure and macroeconomic concerns.

The market also continues to be characterized by a widen divergence between the two key benchmark crudes, WTI and Brent. Historically, the Nymex WTI futures prices traded at a premium to ICE Brent, mainly due to its proximity to the major oil consuming markets. However, in the second half of last year, Brent began to trade at around a $2.2/b premium to WTI. The spread widened significantly since the start of this year, reaching as high as $27/b. This situation has persisted with Brent currently standing at around $110/b and WTI at $85/b.

Turning to the underlying oil fundamentals, the slower expansion of the global economy and trade, particularly in the US and other OECD countries, has resulted in a downward revision in global oil demand growth for this year. The expected higher demand in the US during the peak driving season has not materialized and remained at 2003 levels. OECD oil demand in 2011 is now forecast to continue its contraction after a temporary rebound last year. The fall in Chinese apparent oil demand in June, for the first time in eight months, also confirms a weakening of manufacturing activities, which has resulted in lower-than-expected consumption in the typically peak-demand third quarter. As a result, the increase in world oil demand for 2011 has been lowered by 0.3 mb/d since the start of the year to stand at 1.1 mb/d.

The demand outlook for the coming year is expected to improve slightly with world oil demand projected to increase by 1.3 mb/d. The bulk of the increase in oil demand will take place in non-OECD countries, mainly China, India, the Middle East and Latin America. However, there is a range of uncertainty affecting next year’s oil demand forecast, due in large part to the pace of the economic recovery in OECD as well as the growing impact of energy policies and related legislations. The reduction in subsidies for petroleum products and higher taxes for transportation fuels in some developing countries could also impact demand over the coming year. However, the disruption in nuclear power generation in Japan is likely to lead to higher oil consumption.

In contrast to the downward revision in world oil demand, the current estimation for non-OPEC supply is higher than was expected at the beginning of the year and currently stands at 0.5 mb/d. The upward revision has been supported by North America, China and Russia. Since January, US production has experienced a considerable upward revision due to the increasing output of shale oil and biofules. Elsewhere in North America, efforts to slow the decline in production in Mexico have supported the outlook, as has the ramp-up of oil sand production in Canada. Upward revisions have also been seen in Colombia on the back of healthy supply. In China, forecast growth also experienced an upward revision due to strong output from new offshore developments.

In 2012, non-OPEC production is expected to further increase by 0.8 mb/d. On a regional basis, significant growth is expected to come from Latin America followed by North America and the Caspian region. These gains are likely to be partially offset by OECD Europe, which is projected to experience a decline. The existing risks and uncertainties in the outlook for non-OPEC supply can be attributed to varying decline rates across regions and progress in the new supply frontiers, as well as changes in marginal production costs and oil price levels. Moreover, new challenges to global deepwater production have added further uncertainty to the supply side. In comparison, OPEC NGLs and non-conventional oils are expected to face fewer uncertainties, with steady growth since 2007, for a cumulative increase of almost 1.5 mb/d. Next year, OPEC NGLs and non-conventional oils are expected to increase a further 0.4 mb/d to stand at 5.7 mb/d.

OECD commercial stocks remain at ample levels of around 2.7 billion barrels. This is broadly in line with the five-year average, which has been inflated by excessively high stock levels seen following the onset of the recession in 2008. Moreover, in days of forward cover, OECD stocks correspond to more than 58 days, much higher than the level of 53-54 days considered normal by the oil industry. Additionally, most of the recently released strategic reserves have shifted to commercial oil stocks, due to weakening demand in OECD countries. The latest estimation for floating storage shows a decline from a peak of 131 mb in May 2010 to currently stand at a still considerable volume of 55 mb, available for immediate supply to the market. This decline came on the back of a narrowing contango structure as well as the rise in global oil demand in the first half of this year.

In addition to the comfortable levels of global oil stocks, the increase in OPEC production reaching 30.0 mb/d – the highest so far this year – has contributed to the well-supplied market despite disruption in Libyan oil production.

More recently, the market has reacted positively to the speedy return of Libya towards normal supply levels. Oil field production is expected to quickly resume, reaching 1 mb/d within the next six months. Libyan oil production is expected to be restored to full capacity by the end of next year.

Looking ahead, the perception of market tightness and worries of supply shortages in the fourth quarter of this year appear to be easing. Oil demand growth has been revised lower in the wake of reduced global economic growth, at a time when OPEC crude oil production continues to increase and revived Libyan supply is already making its way to the market. Moreover, efforts by policy makers to improve transparency in energy derivatives and price discovery are underway and could help to reduce volatility in crude oil prices. These efforts have been given further momentum by recent academic studies that have established links between speculative activities and crude prices.

While the current OPEC production profile provides sufficient flexibility to take into account current uncertainties and downside risks, it is of critical importance to continue carefully monitoring oil market developments. In an industry of long lead times and high capital costs, excessive price volatility makes conditions unsuitable for timely investment and undermines the ability of the petroleum industry to adequately meet future oil market requirements.