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OPEC would like to inform the distinguished delegates to the IMFC that the oil market is currently characterized by ample crude supply and comfortable overall stock levels, providing further evidence of a well-balanced market. This has been observed throughout the year and is expected to remain so even in the coming quarters of higher-seasonal, winter demand.

Since the last meeting of IMFC, the **OPEC Reference Basket** has showed considerable volatility. After reaching almost $125/b in April, the Basket fell below $90/b in July, before recovering to almost $115/b in September. This fluctuation in prices has been driven by divergent factors. Prices have been pushed higher by supply outages in North Sea, weather-disruptions in the Gulf of Mexico, and geopolitical factors in the Middle East, as well as further monetary easing by some governments. However, economic concerns in the Euro-zone, which has spilled-over into other regions, along with further weakening of oil demand in the US and China, have kept a cap on prices and, at times, pushed them lower. While some supportive fundamental factors have been seen, they have not been sufficient to justify a 20-30% change in prices over such a short period.

Moreover, this fluctuation in prices has been accompanied by significant in- and outflows of speculative investments in the Nymex and ICE Brent futures markets. The strong co-movement between futures prices and net long positions provides further confirmation of the influence of speculative activity in the oil market and on crude prices. This tandem increase in speculative activity and price volatility has been seen in other commodity markets as well, particularly for agriculture. At the same time, it should be noted that that the higher volatility in crude oil prices has occurred despite a well-supplied market, with OPEC production in 2012 averaging well-above market needs at more than 31.3 mb/d, while total OECD crude stocks have remained above the five-year average.

With the fading impact of fiscal and monetary stimuli, the **global economy** has experienced decelerating growth in 2012, which is now forecast at 3.1%. In the coming year, the world economy is expected to grow by 3.2%, broadly in line with the 30-year average. However, the imbalance of economic growth across the globe remains significant. Developing and emerging economies continue to contribute the majority of growth, although this has been mainly driven by exports to and foreign investments from developed economies. While this imbalance is expected to continue into 2013, global economic growth is seen stabilising in the fourth quarter of 2012.

At the same time, the fragility of the Euro-zone remains a core concern. The sovereign debt issues of Spain and Italy – countries which constitute almost a third of the Euro-zone's economy – have so far been contained, but will certainly need close monitoring going forward. The European Central Bank's sovereign debt-buying programme should help to alleviate some of the burden facing these ailing economies, but debt issues will remain a challenge given the considerable austerity measures that will need to be implemented. This can be seen in the ten-year sovereign debt yields, which remain at high levels. The Euro-zone's economy is expected to expand by a marginal 0.1% in 2013, following a contraction of 0.5% in the current year.

While the US has shown some resilience, it remains to be seen how the discussion about fiscal tightening will play out, as it could lead to a further reduction in growth. The US is forecast to grow at 2.2% in 2012 and 2.0% in 2013, which assumes that a way is found to avoid the automatic budget cuts slated for the start of next year. Japan is also expected to see lower growth in 2013, forecast at 1.1% compared to 2.2% in the current year. Expectations for lower growth in the US and Japan next year highlight one of the key risks facing export-driven developing and emerging economies.

Despite China's efforts to support growth domestically, the economy is facing a continued deceleration from around 10% growth in past years to a forecast of 7.6% this year and 8.0% in 2013. The impact of slowing exports has lowered growth in the economy, which will need to be offset by domestic demand. However, it is expected that further monetary and fiscal stimuli will be able to compensate for the lagging momentum, as the government could still engage a wide range of stimulus measures.

In contrast, given continued high inflation, India is not expected to introduce further major stimulus efforts and is forecast to expand by 5.7% this year and 6.6% in 2013. Other emerging and developing economies are facing similar challenges due to the lowered export base. Nevertheless, developing and emerging economies are still forecast to contribute almost 80% of global growth.

The on-going uncertainties facing Europe and the slowdown in the emerging economies have resulted in downward revisions in **world oil demand** growth for this year to stand at 0.8 mb/d. This growth could be reduced further if the recent trend in consumption in the US and China is confirmed. Indeed, total oil demand in China rose by only 300 tb/d in the first eight months of this year, compared to 500 tb/d a year ago. US oil consumption has also contracted by 300 tb/d between January and August, compared to a negative growth of only 100 tb/d a year ago.

In 2013, world oil demand growth is expected to remain at almost the same level as in the current year. The bulk of the increase will come from non-OECD countries, albeit at a slower pace than in 2012. China's oil demand growth will remain unchanged from this year, in line with the forecast for only slightly higher GDP growth. While the OECD is expected to continue to contract, an improvement in economic conditions, along with a cold winter, could reduce the decline. However, overall risks to the global demand forecast remain on the downside on worries that the economic malaise in Europe could prove prolonged and spill over into the export dependant non-OECD regions, which are already showing signs of slowing down.

In contrast to the uncertainties affecting world oil demand, **non-OPEC supply** is seen performing well this year with growth of 0.6 mb/d, much higher than in the previous year. This trend should continue in 2013 with non-OPEC supply projected to increase by 0.9 mb/d. The key growth area for non-OPEC supply is North America, supported by increases in the US and Canada. The US accounts for almost half of this growth, with an anticipated surge in onshore US production, especially from shale developments. In Canada, steady gains in oil sands and shale production is forecast to add an additional 170 tb/d in 2013. The African region should rebound from the significant fall in output caused by the disruption in supply from the Sudans, growing by more than 100 tb/d in 2013. Overall, the outlook for non-OPEC supply in 2013 is subject to upward and downward risks from on-going economic, technical, environmental, geopolitical and weather-related factors.

It bears noting that the forecast 0.9 mb/d increase in non-OPEC supply for 2013 includes an estimated rise of around 100 tb/d in **biofuels**. This figure is associated with a high level of risk and uncertainty driven by weather conditions, as well as government regulations and support programmes. Additionally, **OPEC NGLs** are expected to increase by 240 tb/d in 2013. As a result, total non-OPEC supply, including OPEC NGLs, is expected to increase by around 1.1 mb/d in 2013.

This strong combined growth of non-OPEC supply and OPEC NGLs would outpace projected demand in 2013, leading to a reduction in **demand for OPEC crude** for the second consecutive year to average 29.8 mb/d. This would contribute to an upward trend in OPEC spare capacity, which is expected to increase by 1.1 mb/d in the coming year. This would put total OPEC capacity at nearly 36.7 mb/d, representing as a significant supply buffer for the market.

In terms of stocks, **OECD commercial inventories** show a divergent picture between crude and products. While crude stocks are at a comfortable level above the five-year average, product inventories show a deficit, mainly due to unplanned shutdowns in several refineries and on-going export opportunities. However, the shortage in OECD product stocks could be readily met by utilizing available idle refinery capacity and ample crude from inventories. In the individual OECD regions, the inventory picture varies considerably, with US stocks indicating a surplus and Japanese stocks in line with the five-year average. While European inventories show a deficit, this can be mainly explained by the backwardation in the Brent price, as well as outages in North Sea production, which have kept crude oil stocks lower. However, even with falling crude stocks, European inventories remain at around 65 days of forward cover – in line with the five-year average – due to weakening demand in the region. Overall, total OECD commercial inventories in terms of days of forward cover stand at comfortable levels of around 58.4 days. Moreover, non-OECD stocks have continued to show a steady increase, particularly in China.

OPEC would like to take this opportunity to assure the distinguished delegates to the IMFC of the Organization's on-going commitment to oil market stability, ensuring a regular supply of petroleum to consumers at price levels that are conducive to the health of the world economy and, at the same time, provide the necessary investments to ensure sufficient future supply.