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Organization of Petroleum Exporting Countries (OPEC)

delivered by

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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 petroleum to consumers at price levels which are equitable for the world economy and consumers, but which also encourage the investment necessary to provide adequate future supply.

The **world economy** experienced higher than anticipated growth in **2010**.This was mainly due to the continued government-led support measures implemented in the developed countries and strong economic activity in the developing economies. This momentum is expected to continue in the current year. Sound improvements in consumption in developed countries, combined with the successful steps taken to contain the risk of overheating in developing economies, have led to an expectation that global growth will reach 4% in 2011. This positive development has, however, been accompanied by many persistent challenges. High unemployment and record-levels of sovereign debt in the developed countries, along with potential overheating in the major developing economies and the increasing risk of inflation have been at the forefront of these challenges.

Some of these concerns have abated during 2011. Unemployment has declined to below the 9% level in the USA; it has dropped to less than 10% in the Euro-zone, and has remained below 5% in Japan. The enforcement of new measures aimed at preventing sovereign debt default in the Euro-area has created confidence, reassuring market participants that the debt situation is manageable. Furthermore, the recent rate hikes in major developing economies, combined with continued high levels of expansion, have demonstrated the ability of those countries to manage growth levels, while at the same time avoiding overheating.

While these central concerns have abated, new unexpected challenges have emerged. The unrest in the MENA region and the tragic events in Japan have had an impact on global economic growth this year, but the currently foreseeable short-term consequences on the global growth forecast remain minor. However, the recent tragic events in Japan are having a strong impact on the country's economic growth. The projection for Japan's growth for this year has been lowered to minus 0.1%, from 1.5% in the previous month. While the shortfall in industrial production in Japan is expected to have some impact on the first quarter, the trough should be reached in the second. Countermeasures implemented by the administration, and catch-up effects in the second half of the year should, however, partially compensate for some of the earlier decline. Any negative impact on growth in the Asian region is expected to be low, and global economic growth is currently forecast at 3.9%, revised down from the previous forecast of 4.0%. The full extent of the impact of the events in Japan, however, are not yet known, and revisions to these numbers in the coming months are, therefore, likely. Developing countries continue to be the main source of global expansion in 2011, and are again expected to contribute the biggest single share of growth.

Following the relative price stability seen for most of 2010, US **benchmark crude oil prices** moved above the $90/b mark in mid-November, on the back of the early onset of winter weather, and improving expectations for economic growth supported by fiscal stimulus. Some forecasts of a strong revival in crude oil demand and a perceived potential for tightness in the market during 2011 also contributed to the price rise, by giving grounds for a surge in speculative activities. This upward trend in crude oil prices has continued since then, driven even higher by events in the MENA region and the growing risk premium, resulting in prices returning to levels last seen in September 2008. Benchmarks ICE Brent and WTI moved above $120/b and reached just under $108/b respectively. This volatility has attracted increased speculation in both the ICE and the Nymex, which can be seen in the volumes traded. On 23rd February, activity on ICE Brent increased to a record-high of 821 mb, up from an average of 507 mb in January 2011. On the Nymex, trading in WTI reached 1.4 billion barrels, up from 863 mb in January 2011.

Equity markets across the globe have fallen since the start of the crisis in North Africa. This has been due to uncertainty regarding the duration of the disruption in North African supplies and fears that sustained higher prices could impact the world economy. Before the turmoil in the MENA region, crude oil prices were tracking a general increase across the **major commodities**, and the gains in other major commodities were outpacing those in crude oil. Since the start of the disruption, WTI has risen by 21% and ICE Brent by 14%. This is well above the 4% rise in gold, which now stands at a record high of more than $1,400/ounce. The prices of other metals, such as palladium, platinum and copper, have remained unchanged, or even declined, during this period. Some agricultural products, such as corn and sugar, have also decreased during the same timeframe. Taken together, this could reflect a shift of investment funds from other financial assets into the crude oil futures market.

As a result of the recovery in the global economy, the decline in **world oil demand** experienced during the last two years was halted, with an increase of 2.0 mb/d seen in 2010. This was driven by a stronger-than-anticipated recovery in the global economy, due to the implementation of stimulus packages. Developing countries remained the main contributor with more than 75% of total oil demand growth, led by China, India, the Middle East and Latin America. At the same time, OECD consumption turned positive after four consecutive years of negative growth, driven by an improvement in US demand and, to a lesser extent, consumption in the OECD Pacific. Oil demand in Western Europe, however, remained negative. For 2011, current projections for world demand stand at 1.4 mb/d, with the bulk of growth expected to come from the non-OECD. However, it should be noted that, in addition to the pace of the economic recovery, there is still great uncertainty surrounding the forecast for oil demand in 2011, due to the impact of the Japanese disaster as well as the recent surge in prices, which, if sustained for a longer period, could affect the growth in demand.

Non-OPEC supply growth was positive in 2010 and is now estimated at 1.1 mb/d, mainly driven by growth in non-conventional oil and the strong performance of the USA, Russia, Brazil and Canada. In contrast, the United Kingdom, Norway and Mexico experienced continued declines as a result of losses from mature fields. Biofuels showed steady gains, despite growing concern over their adverse effects on prices, food supply and on the environment. In 2011, non-OPEC supply is expected to continue growing, but at a lower pace of 0.4 mb/d. OPEC natural gas liquids (NGLs) are expected to increase by 0.5 mb/d in 2011, to show almost the same growth as in the previous year. This is slightly more than the expected growth in non-OPEC supply, which underscores the increasing importance of OPEC NGLs in global supply and OPEC's efforts to meet the needs of the market.

Regarding petroleum inventories, the excessive overhang seen in total **OECD commercial stocks** has declined from its peak of June 2010, reflecting improving global demand, combined with the recent supply disruption in Libya. However, OECD commercial stocks in days of forward cover currently stand at around 58 days, well above the 53 days which are considered to be the normal level in the industry. The latest estimate for floating storage for March 2011 shows a decline from the peak of 131 mb in May 2010 to currently stand at 68 mb. This decline came on the back of a narrowing contango structure in the market, as well as the rise in global oil demand. The overall oil stock overhang, including both on-shore and off-shore stocks, remains at high levels and does not support the current higher price levels.

In addition to the comfortable levels of global oil stocks, OPEC **spare capacity** had risen as high as 6 mb/d before the crisis in Libya, providing a further cushion of supply to the market. OPEC has already begun to increase production to compensate for the loss of Libyan supply, as shown by the reported OPEC production for February, which moved above 30 mb/d for the first time since December 2008. With this increase, the expected demand for OPEC crude for the second quarter 2011, of 29.0 mb/d, is below current production levels. This would likely result in a growing stock cushion during this period, indicating that the market remains well supplied. Despite this, crude oil prices still remain at high levels – out of step with the realities of supply and demand.

Since the crisis in Libya, OPEC Members have taken action to compensate for any shortfall in production to ensure that the market remains well supplied. The distinguished delegates to the IMFC can be assured that in the months ahead, the Organization will continue to fulfil its longstanding objective of maintaining crude oil prices at fair and equitable levels. OPEC will hold its **159th Ministerial Meeting** in Vienna on 8th June, to consider the new market environment, the uncertainty in the recovery of the global economy and its potential impact on oil demand. OPEC stands ready to take the necessary action to support stability for the well-being of the market and the benefit of the world at large.