

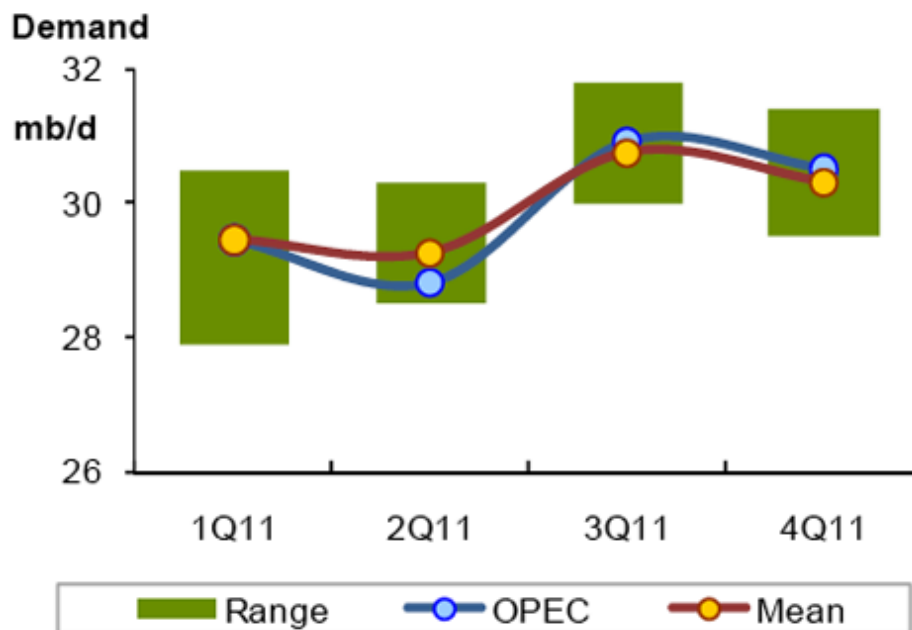


The OPEC Monthly Oil Market report for June

Posted by [Heading Out](#) on June 15, 2011 - 10:55am

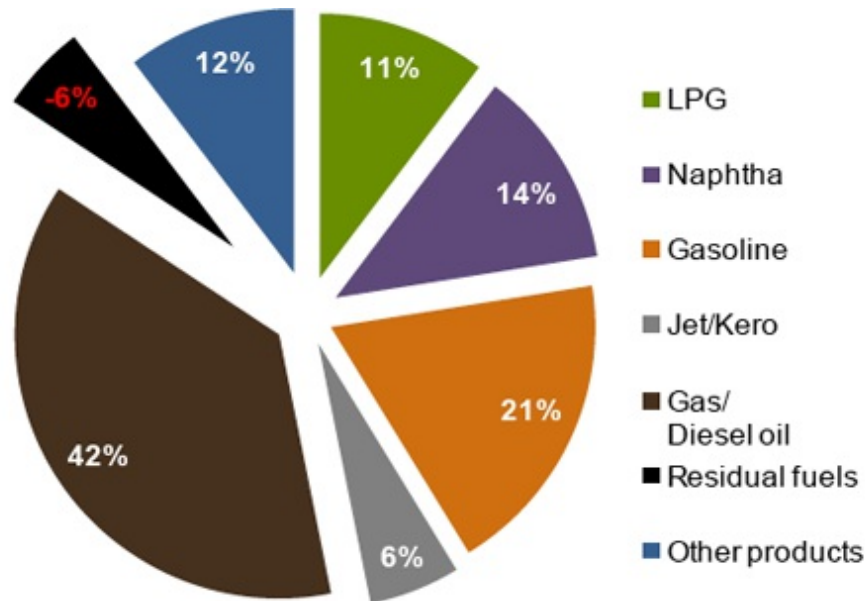
With the turmoil in the Middle East and North African countries (MENA) now more evident in nature, the impacts on global oil production can be more rationally assessed. In this vein, the OPEC Monthly Oil Market Report (MOMR) [for June](#) has now been released. The main feature article looks at the prospects for the rest of the year, and as Leanan [caught in Drumbeat](#), one of the major concerns has to be that OPEC supply, at current levels (28.97 mbd), does not reach the anticipated average demand for the year (29.9 mbd). However, putting that in context, MOMR begins by noting that the price of the OPEC basket fell \$8.15 in May, to \$110/bbl, so there are mixed signals in the air. Further, OPEC currently reports that they collectively supplied an average of 29.6 mbd in 2010, so that the increase in supply needed over last year is only 0.3 mbd.

As I mentioned [earlier in the week](#), the disputes within OPEC have so far left the organization unwilling to sanction the increases needed to meet the anticipated imbalance. Whether this is a ploy by Saudi Arabia (KSA) to appear “friendly” to the customer, while bowing to majority rule and keeping supply tight enough to force prices higher, or whether the KSA will unilaterally release more oil is currently in question. The level of increase that KSA has suggested, 1.5 mbd, may appear to be larger than that needed to bring supply and demand into balance. Demand is seasonal, however, and is expected to maximize in the third quarter, during which global demand is expected to rise some 2.3 mbd, with growth continuing with a further addition of 0.2 mbd in the fourth quarter. Thus, in that context, it is interesting to see how the MOMR reflects the current organizational view of the next six months.



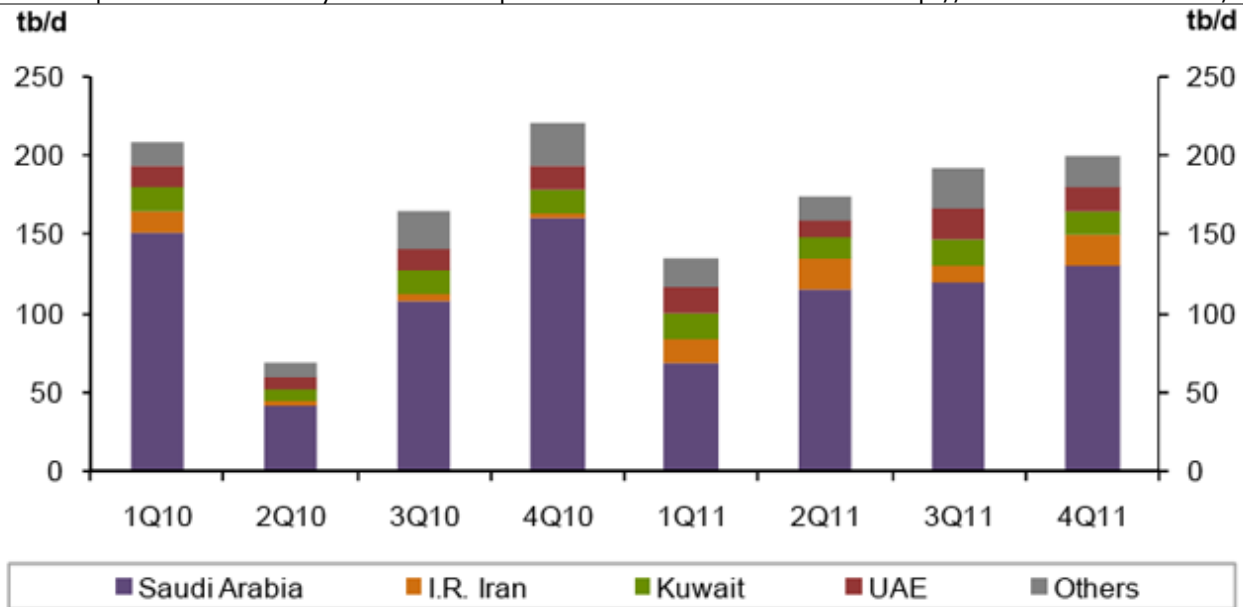
OPEC anticipated levels of demand for 2011. ([June MOMR](#))

OPEC continues, as it has in past months, to anticipate a global increase in demand of some 1.4 mbd overall, led by economic growth in China and India. Given that this is an average over the year, with second-half increases offsetting first-half declines (which includes the drop in demand from Japan) this explains the larger supply need that will be required to keep markets in balance in the second half, at which time Japan is anticipated to show more signs of recovery. The report notes that it is not only the BRICS (Brazil, Russia, India, China and South Africa) nations that are seeing significant growth, but that, in part because they are now selling oil and gas on the international market, the Commonwealth of Independent States (the former FSU) will also see significant growth. Turkmenistan, for example, which is now selling natural gas into China, is projected to see growth of 8.1%. OPEC recognizes that increasing price will reduce demand, but are currently projecting that the range of this variation, should prices increase, would only be in the range of 200 kbd.



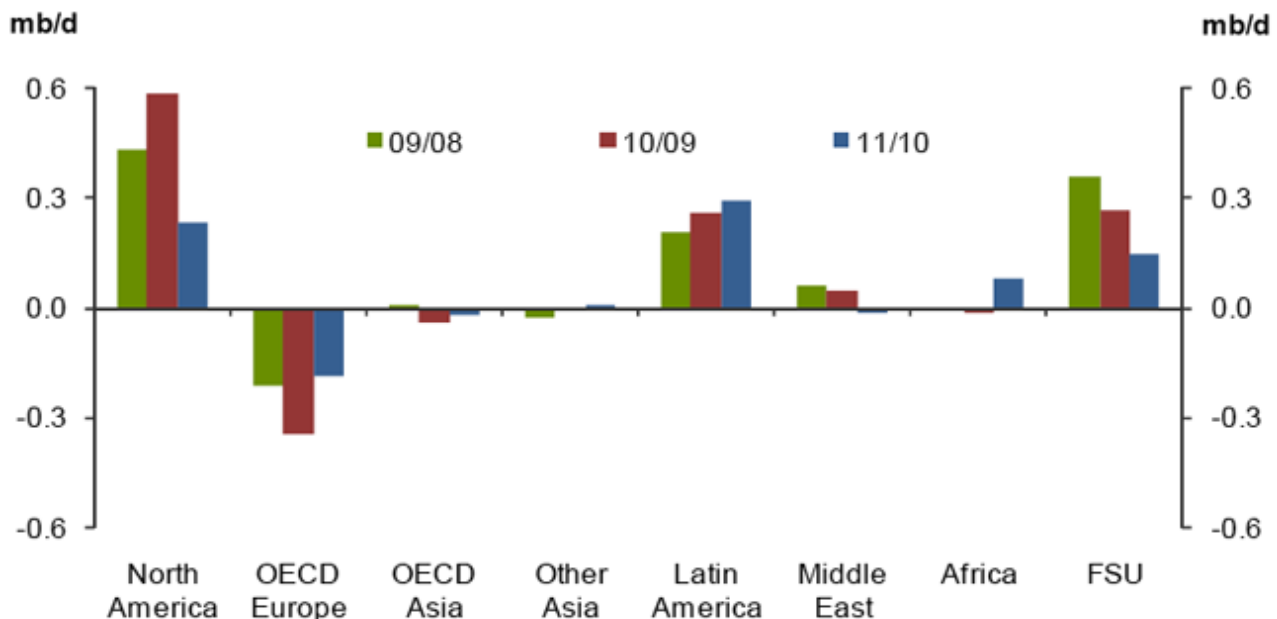
Expected y-o-y growth in the different sectors of petroleum products ([June MOMR](#))

The particular growth in the diesel oil market is, in part, based on a projection that the continued drought in China will reduce [the amount of hydro-electric power available](#), driving consumers to the use of diesel generators. It also recognizes that bio-diesel is entering the market, citing in particular Malaysia, but points out that even when the 5% biodiesel mix becomes national (it has just [started to be available](#) at stations), the production levels will be 10 kbd which, against a market demand of 542 kbd, makes it effectively insignificant. Internal Middle Eastern demand for oil is expected to rise to 7.4 mbd.



Increase in demand for oil products in selected countries of the Middle East (MOMR)

Given these increases in demand, it continues to be interesting to see where OPEC anticipates that the additional supply will come from. Non-OPEC sources are expected to produce about 0.7 mbd of the increase, so that if the demand increase of 2.3 mbd is to be met, this would explain, roughly, where the KSA suggestion of an increase of 1.5 mbd in production comes from. (And in that context the 28.97 mbd produced by OPEC in May was up some 171 kbd over April). Yet, if one looks at the overall OPEC view of where this year’s supply is to come from, it is particularly interesting to note the projection of no sensible growth in the 2011/2010 interval from the Middle East.



Expected supply growth by region for three consecutive years, ending 2011 (MOMR)

The regions that are expected to contribute most to the growth are North America, increasing by 240 kbd; Latin America with a 290 kbd growth; and the CIS countries producing an additional 140 kbd. There are also declines, so that overall non-OPEC growth is set at 660 kbd.

United States production is anticipated to grow from 8.69 mbd in the first quarter to 8.74 mbd in the fourth, with growth coming from increased output from the Bakken and Eagle Ford shales, biofuel growth, and an increase in NGL supplies. Canadian production will increase by 140 kbd, ending the year at 3.6 mbd. Mexican production will fall slightly, 30 kbd, and will average 2.93 mbd for 2011.

In Latin America, the main gains will come from Colombia, which will increase production by 110 kbd to average 0.91 mbd for the year. Brazil is projected to have the highest growth outside of OPEC, with a growth of 190 kbd, to average 2.85 mbd in 2011.

Recognizing that Yemen is now in flux, and that production is falling, along with the loss from Libya (unmentioned) one presumes that OPEC policy is that these losses will be made up within the organization to keep overall production from the Middle East relatively constant.

Growth from the Former Soviet Union countries is focused on that from Russia and Kazakhstan, which together will provide the additional volumes that will, on balance, increase production from this region by 140 kbd in 2011 over the average for 2010. However, the increase from Russia over the rest of the year is trivial (50 kbd) with growth coming from the Uvat and Verkhnechonskoye fields. ([Stuart Staniford](#) is somewhat skeptical that we can see much further growth, albeit production in May averaged 10.25 mbd.)

Of course these projections do not take into consideration the current controversy within OPEC itself over the relative benefits of increasing production over those for holding production and watching the price rise, an argument best made by those who can't increase production due to their field conditions. In short, this is an ongoing movie with this MOMR providing just a snapshot in time of the conditions as they continue to change. But it does help in the understanding of the overall current picture. We will wait to see what next month brings. But for those curious, the MOMR does include tanker traffic numbers, and they can be interpreted, though not, I'm afraid, by me.



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